EDISON

Globalworth Real Estate Investments

Initiation of coverage

Growing value

Globalworth Real Estate Investments (GWI) is a young and fast-growing real estate investment company focused on Romania, where the economy is growing and commercial property supply-demand dynamics are favourable. It is targeting attractive yields generated from a mix of quality completed, income-generating assets and development projects to generate cash flows and an eventual high payout ratio. Prospects for yield convergence and additional NAV growth (above that forecast) look positive. The management team is experienced, with a strong track record in Romania, and interests that are aligned with external shareholders.

Year end	NOI* (€m)	PBT** (€m)	EPS** (c)	EPRA NAV/share(€)	DPS (c)	P/E (x)	P/NAV (x)	Yield (%)
12/14	12.9	(9.4)	(21.0)	8.09	0.0	N/A	0.74	N/A
12/15e	27.5	(5.9)	(9.7)	8.33	1.50	N/A	0.72	N/A
12/16e	37.9	6.3	11.6	10.29	10.0	51.7	0.58	1.7
12/17e	60.4	28.8	53.2	10.65	30.0	20.8	0.56	5.0

Note: *NOI is net operating income. **PBT and EPS are normalised, excluding fair value movements, bargain purchase gains, exceptional items and share-based payments.

Significant progress in 2014

2014 marked GWI's first full financial year since its incorporation. A portfolio of 11 assets had been created by year end, and has since reached 14. All investments targeted at IPO, and material investments targeted since, have been completed, many at favourable prices, leading to an increase in EPRA NAV per share to €8.09 from €6.03 a year earlier (+34%). €182m of additional equity issued supported the balance sheet, with the year-end LTV at 34.4%. As acquisitions fully contribute and developments complete, we estimate that net operating income (NOI) will build strongly, supporting profit growth and cash distributions. Our forecast growth in NAV per share incorporates gains on completion of development projects only and no yield contraction. The latter could have a significant impact on NAV per share.

Acquiring and developing cash flow

The Romanian economy is performing well, with little direct impact from the Ukrainian crisis and Russian slowdown. Demand for quality, modern commercial property of the type that GWI provides continues to outstrip supply. As recent acquisitions fully contribute to income and developments complete, GWI should be able to generate strongly growing cash flows that can support growing shareholder distributions. There is also good potential for NAV to benefit from a convergence of property yields towards those seen in more established CEE capitals.

Valuation: Cash flow with NAV upside

GWI is trading at a 44% discount to our forecast FY17 EPRA NAV, capturing the expected valuation uplift from the completion of current developments, with a forecast 5% yield. Although not shown in our forecasts, if the portfolio NOI yield used in the external valuation were to decline from 7.71% to 7.0% (Warsaw and Prague c 6.0%), FY17e NAV would increase by 18%. Our detailed analysis explores the potential for additional valuation gains, as well as the possible dilutive impacts of warrant conversions and equity-raising.

Real estate

23 July 2015

Price	**€6.00**
Market cap	**€322m**

Net debt (€m) as at 31 March 2015	271
Shares in issue	53.6m
Free float	22.6%
Code	GWI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	5.2	7.0	6.5
Rel (local)	7.4	11.6	5.9
52-week high/low		€7.00	€5.50

Business description

Globalworth Real Estate Investments is incorporated in Guernsey and listed on the AIM market of the London Stock Exchange. It is a real estate investment company focused on opportunities in South-East Europe and the CEE, but primarily Romania, which accounts for the entire current portfolio.

Next events

H115 NAV	August 2015
Interim results	September 2015

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

Globalworth Real Estate Investments is a research client of Edison Investment Research Limited

Investment summary

Company description: Focused on Romania

GWI is a real estate investment company targeting opportunities in South-East Europe and the CEE, but focused on Romania, which accounts for the entire current portfolio. Since listing on AIM in July 2013, it has quickly built a portfolio of 14 assets, a mix of completed, income-generating standing properties and development projects, including two land plots. As acquisitions begin to fully contribute to income and developments complete, GWI should be able to generate strongly growing cash flows that can support shareholder distributions. There is good potential for NAV to benefit from a convergence of property yields towards those seen in more established CEE capitals. Class A assets can still be acquired on ungeared yields well above 7.5% (compared with c 6.0% in Prague or Warsaw), while positive supply-demand dynamics are providing positive conditions for development activity.

Valuation: Cash flow with NAV upside

At €6 per share, GWI is trading at a 22% discount to Q115 EPRA NAV per share. Building in the expected valuation uplift from the completion of current development projects, the discount to our forecast FY17 NAV per share is 44%. There is also good potential for NAV to benefit from a convergence of property yields towards those seen in more established CEE capitals. In the external valuation, the expected NOI yield on the portfolio value at completion (excluding land plots) is 7.71%, making valuation gains driven by yield compression a real possibility. A decline to 7.0% is estimated to lift 2017e NAV per share from €10.7 to €12.6. At 6.0%, it is estimated to increase further to €16.1 per share. Over time, GWI has expressed an intention to pay out up to 90% of available free cash, which we base on operating cash flow after financing costs. We estimate this will grow significantly through 2015-17, reaching €30.0m (€0.56 per share) in 2017. Given the significant development financing needs through 2015 and 2016, we expect dividends to start modestly, building to an estimated DPS of €0.30 in 2017, a c 50% payout of operating cash flow after financing, representing a yield on the current share price of €6.00, or 5.0%.

Financials: 2014 delivered planned growth

2014, the first full financial year since incorporation, delivered the planned asset growth and saw progress on major developments. The Romanian economy is performing well, and demand for quality, modern commercial property of the type that GWI provides continues to outstrip supply. Our base case forecasts allow for completion and letting of current development projects, but no further acquisitions, and assume debt funding (although an increase in equity seems likely). We estimate that net operating income (NOI) will grow substantially through 2015-17 with profits and cash flow emerging to support dividends. NAV per share is also forecast to increase, by 32% from 2014 to 2017, incorporating gains on completion of development projects only and no yield contraction. The latter could have a significant impact on NAV per share. GWI is currently negotiating long-term finance to support planned development activity and refinance expensive short-term facilities. We also explore the sensitivities of our forecast to equity-raising.

Sensitivities

In addition to the usual development risks and funding risks, we highlight on page 9 the significant role played by GWI's founder and major shareholder, as well as Romania's reputation for weak political and business transparency. Risks include:

- key individual risk;
- property development risk; and
- funding risks.

Company description: Growing value

GWI is a fully integrated real estate investment company that acquires, develops and directly manages primarily high-quality real estate assets with a focus on Romania. It provides turnkey commercial real estate solutions, renting space to multinational tenants on long-term, triple net, annually indexed, euro-denominated leases.

GWI targets high-quality, well-located assets with high cash flow generation capacity, either already let to creditworthy tenants or for which it can achieve significant pre-letting contracts. When undertaking a development, GWI does not develop on a speculative basis and seeks to achieve a 50% pre-let on office space, and 85% on light industrial (logistics) space before construction begins. Through active asset management by its in-house established local platform, GWI aims to maximize cash flow generation and capital appreciation from developing at attractive costs or investing at a discount to third-party appraisals.

GWI's large and diversified tenant base includes more than 75 different national and multinational companies and financial institutions, including Vodafone, Deutsche Telekom, Orange, Honeywell, Huawei, Hewlett Packard, Deutsche Bank, National Bank of Greece, Ernst & Young, Intel, Nestlé, EADS, ADP and Cegeka. More than 90% of existing leases are with multinational corporations or their local subsidiaries

GWI was incorporated in Guernsey in February 2013 and listed on the London AIM market in July 2013. It is headed by its founder, CEO and 42.1% shareholder, Ioannis Papalekas, assisted by deputy CEO and CIO, Dimitris Raptis, four additional senior managers and a team of more than 50 real estate professionals, all based in Bucharest. Mr Papalekas has a successful 16-year track record in the real estate sector including 14 years' experience in Romania.

Since listing, GWI has successfully built a portfolio of 14 assets, a mix of completed, income-generating assets, development projects and land plots. The pro forma externally appraised value (including agreed and subsequently completed acquisitions) was €752.1m at 31 December 2014, with an estimated pro forma value on completion of the development assets of €1,042.6m (including an estimated €188.2m of additional capex, and assuming no development of the land plots). All valuations are prepared by independent third parties.

Funding for the portfolio includes the €54m raised on listing, €144m additional equity raised in April 2014, assets contributed by the founder in exchange for GWI shares and €206m of debt as at 31 December 2014 (or €386m including €79.9m of debt assumed with acquisitions that were agreed and have subsequently completed, and €100m of short-term debt funding that GWI intends to repay pending completion of negotiations on long-term funding). On this portfolio, management expects a stabilised yield on the cost of these investments of 10.8% (Q117 NOI/investment and development cost). This 10.8% compares favorably to the current yield on prime office space in in the Bucharest market of 7.75%. Various factors allowed GWI to secure such a high-yielding portfolio, most of which is directly linked to the in-house established local platform and expertise of the team on the ground in Bucharest. Importantly, GWI started buying assets early in 2013, before the recent pick-up in investor interest, when yields were still at c 8.25%. At that time it was possible to acquire assets from distressed or highly motivated sellers, for example BOB and BOC, City Offices, TCI, Upground Towers, TAP and the land plots for Bucharest One and Globalworth Campus. GWI has also subsequently benefited from active leasing and improving occupancy. Developments (including technically complex schemes such as Bucharest One, or those requiring the careful assembly of multiple land plots, such as Globalworth Campus) command higher yields.

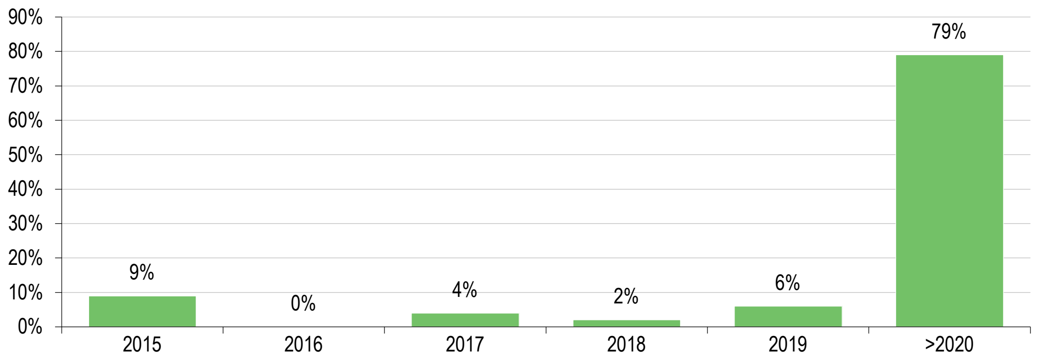
Further growth potential, subject to financing, is provided by existing land assets that may be developed, or from acquiring further standing assets or land plots. As recent acquisitions begin to fully contribute to income and developments complete, GWI should be able to generate strongly growing cash flows that can support shareholder distributions. There is good potential for NAV to benefit further from a convergence of property yields towards those seen in more established CEE capitals. Class A assets can still be acquired on ungeared yields well above 7.5% (compared with c 6.0% in Prague or Warsaw), while positive supply-demand dynamics are providing positive conditions for development activity.

Portfolio overview

Of the 14 assets in the portfolio, eight are located in the new central business district (CBD) in the north-east of Bucharest, which benefits from its connectivity and infrastructure (metro, road, bus and tram services, and close proximity to both Bucharest airports). GWI's assets offer, or are planned to offer, the sort of high-quality space that is in demand from employers and employees. The historical CBD, on the other hand, has limited available land and restrictive planning controls. The Bucharest portfolio also includes TCI, a landmark asset in the historical CBD, for which we believe it would now be impossible to obtain planning consent (due to both restrictions on height and building intensity), Unicredit HQ (a landmark tower leased to Unicredit on a long-term basis) and City Offices, a newly refurbished office building with good transport links, two metro stops south of the city centre.

GWI has received green certification for a number of existing properties in the portfolio (BOB, BOC, Unicredit and Green Court) in 2014/15, and is aiming to receive further green accreditations on its other properties and developments (Bucharest One has been pre-certified LEED Platinum).

Exhibit 1: Commercial contracted rent expiration profile as at 31 December 2014



Source: Company data

As at 31 December 2014 average occupancy (measured by gross lettable area, GLA) was 77.2% on standing properties (fully completed) or 82.1% on a pro forma basis including agreed property acquisitions that have since completed. Including partially pre-let development properties, it was 70% on the overall portfolio. We estimate that the recently refurbished City Offices, for which GWI is in active discussions with potential tenants, negatively affected the occupancy average by 13.6% (on a pro forma basis, ie from 95.7% to 82.1% on standing assets).

On a pro forma basis, the weighted average length of commercial leases (WALL) was 5.8 years. Strong leasing activity in 2014 has continued into early 2015. This includes some of the largest and most significant leases signed in the Bucharest market. In addition, GWI has agreed in principal (but not signed), or is at various stages of negotiations with tenants, to take up additional space. Since the beginning of 2014 through 2015 to date, GWI has signed lease contracts covering c 119,000sqm. The average duration of new commercial leases signed was c 10 years, unbreakable.

Including pre-leasing contracts on development space, the overall average weighted lease length (WALL), on a pro forma basis, was 7.3 years at 31 December 2014. Large multinationals are increasingly attracted to Romania for a number of reasons, including the availability of EU subsidies. GWI believes that its tenants may in some cases find it easier to access these subsidies when supported by 10-year leases as a sign of their commitment to the country, the starting point for any application.

More than 90% of leases are with multinational tenants and much of the balance to local state-owned enterprises (with the Romanian country rating being investment grade) The leases are on a triple net basis, which means the tenant covers local tax, insurance and maintenance expenses, denominated in euros and index-linked on an annual basis to European inflation. Due to triple net leasing, whereby ordinary maintenance spend is covered by tenants and GWI's maintenance capex/refurbishment requirement is minimal (unlike shopping centres, for example), net operating income, adjusted for central administration costs, should closely track EBITDA.

Exhibit 2: Current portfolio (€m), using 31 December 2014 valuations

Property	Carried value	Capex	Valuation uplift	Est. completion value
Completed assets				
BOB	50.5			50.5
BOC	142.5			142.5
TCI	76.4			76.4
City Offices	65.0		0.5	65.5
Upground Towers	108.9			108.9
TAP - completed	16.7			16.7
Unicredit HQ	47.6			47.6
Nusco Tower	59.6			59.6
Green Court A	45.6			45.6
Total owned completed	**612.8**	**0.0**	**0.5**	**613.3**
Development Assets				
Bucharest One	67.6	45.9	44.0	157.5
Globalworth Campus	29.8	109.0	49.2	188.0
Gara Herastrau	6.6	11.7	8.5	26.8
TAP - further development	17.2	21.6	0.1	38.9
Total owned development assets	121.2	188.2	101.8	411.2
Land assets				
Luterana	12.2			12.2
Herastrau 1	5.9			5.9
Total owned land assets	**18.1**	**0.0**	**0.0**	**18.1**
Total portfolio	**752.1**	**188.2**	**102.3**	**1,042.6**

Source: Company data, Edison Investment Research. Note: Includes acquisitions completed in 2015 to date. Valuations as at 31 December 2014.

Standing properties

Six standing properties were fully owned by GWI at 31 December 2014, while the agreed acquisitions of three additional Class A office properties in Bucharest have since been completed. These are the fully let Unicredit HQ and 91.5%-occupied Nusco Tower, completed during Q1, and the fully let Green Court A building on 30 June.

The current standing portfolio now consists of nine properties with an aggregate GLA of c 327,500sqm at an appraised value of c €612.8m at 31 December 2014. All the properties are located in Bucharest, with the exception of the TAP logistics park in Timisoara, which is the process of further development of pre-let space (see below).

Development projects and land

There are two principal developments and two smaller projects that are currently active: Bucharest One is scheduled for completion by the end of 2015, with tenant occupation starting in Q116, and the first phase of Globalworth Campus is expected to complete in Q2-Q316 (our forecasts assume Q216, with occupation from Q3). Management expects the second phase to complete by late 2016/early 2017, and our forecasts assume completion by Q316, with occupation from Q4. At year end Bucharest One pre-letting had reached 40.4% and management reports strong indications of interest from additional tenants. Construction began in Q214 and, in line with the development schedule, had reached the 21st floor (of 26 floors) as of early July 2015. A general construction contract is in place for the first phase of Globalworth Campus (buildings A and B). Construction activity has started but is yet to break ground. At the end of 2014, Building A was 100% pre-let, with the first phase (buildings A and B) 50% pre-let overall. Including further planned development not yet underway, the Campus project was 28.5% let overall.

On a smaller scale, development recently started at Gara Herastrau, a 2,434sqm land plot that was acquired for €4.0m in December 2014. It is adjacent to Green Court Building A and c 200 meters from the Nusco Tower and Bucharest One. On completion, estimated for Q116, it is expected to offer 11,000sqm of GLA. A pre-letting for the entire building by a multinational corporate is in advanced negotiation.

At TAP, 45,360sqm of new space was delivered to Continental in April 2015. A new light industrial warehouse is currently being built, for Elster, to be delivered in August 2015, increasing the warehouse space offered by TAP by c 6,950 sqm to 82,000 sqm. The balance of the space is occupied by Valeo. Continental, Elster, and Valeo each have options to expand further, possibly taking TAP to c 124,000sqm, which GWI believes would represent one of the largest logistics parks in the country.

In aggregate, the four active development projects had a current carried value ("as is") of €121.2m as of 31 December 2014, with an estimated €188.2m of remaining investment to completion. Including an anticipated market uplift of €101.8m when completed, GWI expects a value on completion of €411.2m.

Two land plots in prime locations (Luterana Street and Herastrau) are not expected to be developed in the immediate term. GWI is currently in the planning phase and in discussions with potential tenants to secure the pre-letting commitments it seeks before commencing development. The land plots were carried at a value of €18.1m at 31 December 2014.

Romania: Growing occupier market and attractive investment yield

A fast growing economy

Romania has the largest economy in South-East Europe, is the second largest country in the CEE (after Poland) and one of the fastest-growing developing markets outside Asia. It has been a full member of the EU since 2007 and is a member of NATO. It is not a member of the Schengen community or the eurozone as yet, but is committed to joining and in February 2014 set a target date for entry of 2019.

Romania has a population of c 22 million. The country has a number of attractive aspects as a business environment, including a low and stable corporate tax rate of 16%. The labour market has been stable over the past three years, with an unemployment rate hovering around 7%, well below EU averages (the EU-28 c 10%). Despite this lower unemployment rate, Romania provides a low-cost workforce with labour costs that are the second lowest (to Bulgaria) in Europe. Eurostat figures for 2014 put Romanian average hourly labour costs at just €4.6 compared with an EU-28 average of €24.6.

Inflation is low, slightly above the EU average (harmonised rate of 1.4% in 2014 versus the EU-28 average of 0.6%). A proposed cut in the VAT rate from 24% to 19% should further dampen price increases. Against this background and with a stable local currency (the leu) versus the euro, official interest rates have fallen progressively to the current 1.75%. The proposed VAT cut is one of a number of tax reduction measures planned for the next three years and while supporting domestic demand, these seem likely to at least curtail further reductions in the budget deficit from low levels (1.9% of GDP in 2014), despite the government's intention to seek offsets elsewhere in its budget.

Talks with the IMF over the renewal of a €4bn precautionary aid facility recently stalled as a result of the tax cuts, although in reality Romania has never needed to draw on it. The Greek crisis has also raised some concerns about the impact on Greek banks operating in Romania. However, while c €10bn of Romanian banking assets (c 12% of the total) are owned by Greek parent banks, the operations are conducted in Romania through local entities. Neither of these issues should matter so long as the leu remains stable, and supporting that is the low government debt to GDP ratio 40% compared with an EU-28 average of more than 80%). Moreover, the central bank holds c €30bn in foreign exchange reserves. It is also worth noting that GWI is effectively a euro business with rents set in that currency. Since the end of 2012, the leu has averaged 4.43 versus the euro (in a range of 4.30 to 4.55) and has recently been trading at c 4.45.

Economic growth appears to be returning to the fast pace enjoyed before the global financial crisis. The crisis hit hard and activity fell sharply, only to recover in 2013, which saw GDP growth of 3.5%. Despite some pressure from weaker external demand, GDP grew further by 2.8% in 2014, with industrial production making the largest contribution. The European Commission is forecasting similar growth in 2015, while other forecasters (eg the World Bank) look for growth of up to c 3.0%. Q1 GDP growth was estimated at 4.1% over the previous year, but is seasonal and showed a small decline on Q4.

Over the medium term, economic growth is expected to be supported by substantial EU grants and subsidies of up to €43bn. This includes up to €23bn in regional development aid under the EU Cohesion Policy over the 2014-20 period, an increase from up to €19.2bn in the 2007-13 period. It also includes c €7.8bn through the Common Agriculture and Fisheries Policy, c €10.4bn through the European Agricultural Guarantee Fund, and a €1.9bn Performance Reserve. Moreover, Romania's ability to utilise and absorb the available funding has been showing signs of increase. This funding is helping to strengthen the country's infrastructure, support R&D, invest in education, promote an efficient public administration, and promote the drive to lowering carbon emissions. A particular target is to boost the competitiveness of SMEs and the agricultural sector. In terms of infrastructure, while Bucharest has a modern and efficient metro system, there is a need to strengthen road and rail networks across the country to support economic growth and development.

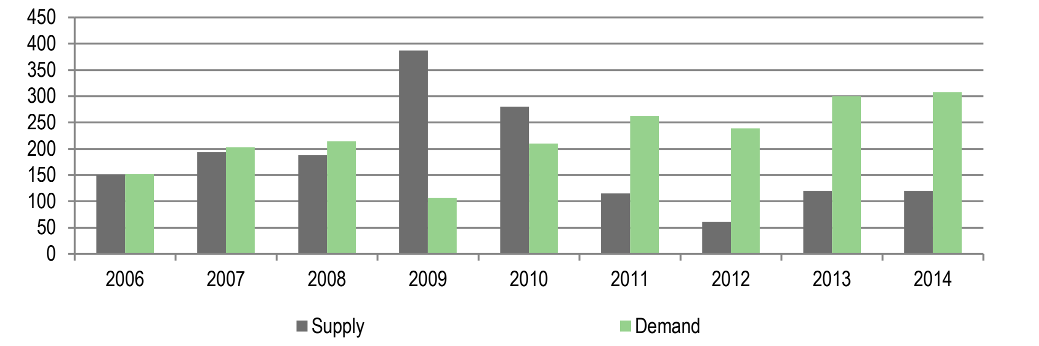
For investors who may be concerned about the Ukrainian crisis and Russian economic slowdown, we note that although Romania is a neighbour of Ukraine, economic ties between the two counties are minimal. Among the new member states of the EU, Romania has the smallest dependence on Russia, next to Slovenia, and this probably reflects its energy self-sufficiency and historical industrial self-sufficiency in the Soviet era. At c 80% it is the third most energy-independent country in the EU after Denmark and Estonia.

Multinationals have been investing and expanding in Romania and it has emerged as an attractive outsourcing location. In addition to the factors referred to above and the proximity to Western Europe, a number of particular Romanian factors combine to provide an attractive price-quality proposition. These include a well-educated workforce with an availability of strong information technology and communications skills, common availability of multiple language skills and an excellent IT infrastructure across the country. In most international rankings, Romania scores among the highest in the world for the speed of its internet. This cannot simply be explained by the use of modern and efficient equipment, but is also attributed to the quality and training of the installation engineers. It is this same skill set, built on a tradition of a maths and science-heavy educational curriculum, that is so attractive to multinational outsourcers. This has particularly been the case in auto, IT and telecoms industries with companies such as Conti, Valeo, HP, Vodafone, Deutsche Telekom, Huawei and Orange all taking space from GWI.

Good property market fundamentals

Bucharest is the main real estate market in Romania, and the focus of GWI's operations. We estimate it accounts for 95% of the current portfolio. The office sector in Bucharest has been seeing good momentum, with demand (mainly new lettings) consistently outstripping new supply since 2011 (see Exhibit 3). A similar picture is expected for 2015 (sources: Knight Frank, CBRE) with the expected supply of c 120,000sqm falling short of expected take-up of c 300,000sqm. Overall office vacancy decreased in 2014 and for the sort of properties on which GWI is focused (prime office properties in central locations), vacancy is c 6% (general vacancy being c 13%).

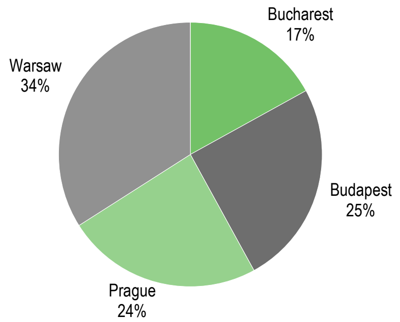
Exhibit 3: New supply of, and demand for Bucharest office space (Classes A & B), 000s sqm



Source: Knight Frank

Despite being cities of similar size, the office stock in Bucharest is smaller than in Warsaw, Prague and Budapest. The lower stock per capita suggests room for growth (see Exhibit 5).

Exhibit 4: Split of modern office stock in main CEE capitals



Source: DTZ, June 2014

Exhibit 5: Office penetration in main CEE capitals

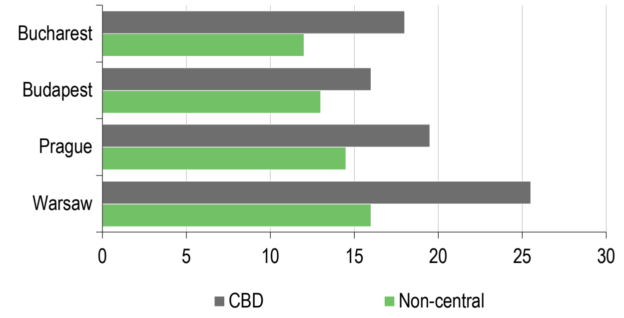
	Office stock	Population	Stock per head
	sqm (millions)	(millions)	sqm
Warsaw	4.3	1.72	2.5
Prague	2.96	1.24	2.4
Budapest	3.2	1.74	1.8
Bucharest	2.11	1.88	1.1

Source: DTZ, June 2014. Note: Stock is classes A and B.

Transaction activity has shown an uneven recovery from the 2009 low until last year. At c €1,300m, 2014 total investment market volume was more than 4x higher than in 2013, with c 70% registered in Bucharest (source: DTZ). Despite the strong pick-up, activity remains some way below the record level of c €2,300m seen in 2007.

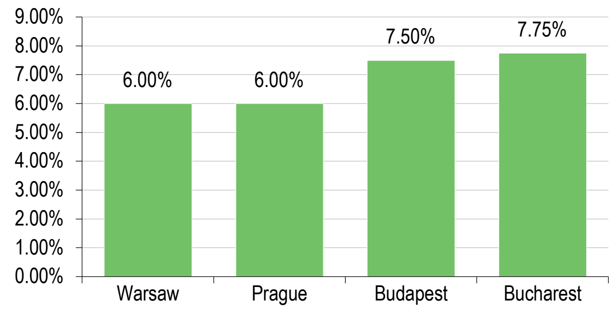
Prime rents have stabilised at c €18 per sqm per month since the global financial crisis and compared with other main CEE cities, both prime rents and non-central location rents are relatively attractive (see Exhibit 6). There are tentative signs of upward movement with the property agents CBRE reporting Q115 prime headline rents of €18.5 per sqm per month.

Exhibit 6: Headline rents (€ per sqm/month)



Source: DTZ, as at 30 June 2014

Exhibit 7: Prime office yields in CEE



Source: CBRE Q314

Reflecting the increasing interest in Romania as an investment market, prime office yields have declined from a peak of c 9% in 2009 to c 7.75% (source: CBRE Q314). That is still up on c 6% in 2007, and a significant premium to the larger and more active markets of Warsaw and Prague remains (see Exhibit 7). With Euribor close to zero, the current yield continues to represent a significant premium.

GWI management, and a number of other market participants, anticipates that investor interest in Prague and Warsaw may cool given the decline in yields in these markets, with interest switching to Bucharest to fuel a further decline in yields in that market. Our central financial forecasts do not build in yield contraction in the form of revaluation gains but on page 10 we show the sensitivity of NAV in the event this occurs.

Management, operations and governance

Experienced senior management

GWI has experienced leadership and has been strengthening its overall management team since listing. The company was founded by Ioannis Papalekas, who is the CEO and main shareholder with a holding of 42.1%. He has over 16 years of real estate experience, 14 years of which was in Romania, during which time he has established a successful track record, including timely exits. The AIM admission document sets out a number of agreements between the founder and GWI that have been put in place with a view to ensuring that GWI is the main focus of the founder’s occupation (at least 75% of his time was spent on the business of the group during the first five years), and that GWI is his exclusive vehicle through which he or his associates invest in real estate in Romania, SEE or CEE.

The founder is supported by an experienced senior management team, among whom we note the following:

- Deputy CEO and CIO, Dimitris Raptis, has 16 years' experience in financial services and real estate, mostly with Deutsche Bank RREEF, with a focus on real estate investment, particularly in Southern Europe.
- Deputy CIO, Stan Andre, has seven years' experience in financial services, with a focus on capital markets, EM and structured financings, mostly with UBS.
- CFO, Andreas Papadopoulos, has 23 years' experience in corporate finance, audit, and accounting, mostly with Ernst & Young, in several Central and South-East European countries, including Romania.
- Investment Director, Stamatis Sapkas, has 10 years' experience in real estate, most of which was with Citigroup’s Real Estate and Lodging investment banking team.

- COO, Adrian Danoiu, has more than 20 years' experience in accounting, finance and business administration, and has worked with Mr Papalekas since 2002.

The founder's track record in Romania is strong

The GWI admission document details the founder's property investment track record during his time in Romania, before forming GWI. Over this period he was responsible for the development of more than 400,000sqm of commercial space and 1,000 residential units, investing more than €70m of proprietary and third-party capital. The combined realised IRR was 175%, generating total capital gains of €270m, with distributions to investors at 4.7x. Excluded from this realised return are unrealised projects in Romania and other South-East Europe countries (including interests in two hotels in Sofia and Belgrade).

Exhibit 8: Founder's track record before Globalworth

Project	Type	Time period	Equity investment (€m)	Distributions (€m)	Multiple	IRR (%)
City Mall	Retail	2004-06	19.3	89.7	4.7x	532
Eliade Tower	Office	2003-07	6.0	33.7	5.6x	304
PGV Tower	Office	2003-07	8.0	26.4	3.3x	83
Energoreparatii	Land	2005-07	2.8	6.0	2.1x	46
Terenuri Nordului	Land	2001-09	1.2	7.0	5.9x	43
Diamond project: BOB	Office	2006-08	9.0	69.4	7.7x	360
Diamond project: BOC	Office	2006-11	21.4	62.2	2.9x	60
Other projects		2001-05	5.0	47.0	9.4x	197
Total			**72.6**	**341.4**	**4.7x**	**175**

Source: GWI AIM Admission Document. Note: Realised projects only, from 2001.

While past performance is no guarantee of future performance, we believe investors will take comfort from this demonstration of senior management experience and ability to execute on strategy. Conversely, we believe investors will attach particular importance to Mr Papalekas's continued involvement with the company, despite the measures taken to deepen the management pool.

Growing in-house team of investment professionals

Overall, GWI has built a team of 50+ real estate professionals. All are based in Bucharest, which we believe is advantageous to the company's operations.

In addition to the investment and strategic functions of the group undertaken by the six-strong senior management team, and the necessary administration, finance & accounting and IT infrastructure (26 members in aggregate), GWI also has internal teams in the areas of project management (five), asset and facilities management (13), commercial sales & leasing (six) and legal (two members).

We have already mentioned how GWI has been able to create significant value by assembling land parcels and successfully obtaining the required building permits. While it undertakes significant, often complex development activity, it is not itself a builder/constructor. The GWI team is involved from the outset in the design and planning of developments, and this involvement continues throughout the development period. Bucharest One is an example of GWI's ability to deliver complex projects. The property sits on an island surrounded by roads and above the underground line, which made the underground work complex. With that successfully completed, the comparatively more straightforward above-ground construction had reached the 21st (of 26) floors by early July 2015.

We believe that the presence of the in-house leasing team has been a significant factor in GWI's ability to sign longer leases (an average c 10 years at inception on leases signed in 2014 and early 2015) than has historically been seen in a market traditionally served by brokers, with whom GWI also works.

The asset and facilities management team is an essential element of the integrated approach that GWI adopts. It seeks to grow with its tenants which, in addition to providing the facilities management that tenants demand, may involve working with tenants to meet the demands for additional space, or possibly working with the investment and development teams to plan for the tenants' eventual relocation needs.

Corporate governance

The board of directors is comprised of the non-executive chairman (Geoff Miller), two executive directors and five additional non-executive directors. Brief biographies of key board members are shown on page 18.GWI is a member of the Association of Investment Companies (AIC) and has adopted its corporate governance code. The board believes it is compliant with this in all important respects, although there are some exceptions. The 2014 annual report notes that since the board considers the non-executive chairman to be independent, no senior independent director appointment has been made. Also, the CEO and founder, and the CEO and CIO, are not subject to re-election to the board during the first five years unless required by a two-thirds vote by shareholders. The common directorships held by the CEO and founder, and the deputy CEO and CIO, of both GWI and the investment adviser (Globalworth Investment Advisers or GIA) are also noted as an exception. However, as GIA is a wholly owned subsidiary of GWI, its activities are fully reflected in the consolidated accounts, and we understand that it serves primarily as an efficient internal structure for the remuneration and incentivisation of key staff.

Sensitivities

In addition to the usual development and funding risks, we would highlight the significant role played by GWI’s founder and major shareholder, as well as Romania’s past reputation for weak political and business transparency. The country is still subject to special monitoring by the European Commission to check its progress in the fight against corruption. However, since the November 2014 election of President Klaus Iohannis, an anti-corruption drive with similarities to the one successfully enacted in Poland a decade ago, may indicate that progress is being made

- **Key individual risk:** we discuss above the experience and track record of the founder and main shareholder, Ioannis Papalekas, who is 39 years old. His contribution since GWI’s formation has been significant and we consider his future involvement will play a considerable role in the group’s development. This risk is mitigated by the considerable deepening and broadening of the management team at GWI in the period since listing.
- **Property development risk:** development activity carries risks associated with the building process, including timing, as well as the risks of leasing on completion. Of the four active development projects, Bucharest One, an island site above underground lines, is the most technically challenging. However, with 21 (of 26) floors completed (as of early July 2015), GWI is well past the more complicated below ground construction phase. To manage leasing risk, GWI does not generally commence development until it has agreed to pre-let at least 50% of the space on an office development.
- **Funding risks:** our forecasts implicitly assume that GWI will be able to successfully raise debt finance to support its development activity. We have assumed that GWI will raise c €214m of additional long-term debt by the end of 2016 to support the planned developments we have included in our estimates. This is in addition to an estimated c €286m of debt facilities secured against standing properties (as at 31 December including agreed and subsequently completed acquisitions). Given that bank appetite for development lending is limited, we anticipate that GWI will seek to provide a proportion of this sum, maybe a significant proportion, with new equity or group debt (bonds or convertible bonds) over the next few months (not included in our

forecasts). Without funding, GWI would not be able to pursue the development projects that contribute to our forecasts for NOI and valuation gains at completion.

Valuation

As recent acquisitions begin to fully contribute to income and developments complete, GWI should be able to generate strongly growing cash flows that can support growing shareholder distributions. There is also good potential for NAV to benefit from a convergence of property yields towards those seen in more established CEE capitals. For now, liquidity in the shares is limited (market capitalisation of €322m and a free float of 22.6%), but we expect this to improve if additional equity is raised over time to fund development expenditure and acquisitions. As discussed below, management is currently negotiating longer-term funding to support its planned investment for the next couple of years. Although not in our base case forecasting, we think it likely that equity-raising may form part of this plan, and we show below the potential dilutive effects on EPRA NAV and operating cash flow after interest costs (the basis for future dividend payments) per share, for a range of issue sizes and issue prices.

Cash flow

Over time, GWI has expressed an intention to pay out up to 90% of available free cash. Available cash flow is dependent on acquisition and development opportunities, but we note that the interests of GWI's management are closely aligned with those of external shareholders; it does not benefit directly from asset growth in the way that an external manager might in charging fees as a function of deal flow.

Our starting point for available free cash is operating cash flow after financing costs. We estimate this will grow significantly through 2015-17, reaching €30m (€0.56 per share) in 2017. We also believe management is keen to commence dividend distributions as early as possible and we expect this could be in respect of H215, paid in H116. Given the significant development financing needs through 2015 and 2016, we expect dividends to start modestly, but by 2017 we estimate a DPS of €0.30, a c 50% payout of operating cash flow after financing, representing a yield on the current share price of €6.00 of 5.0%.

Potential for yield compression to lift NAV

The asset valuation is based on the external valuer’s assessment of the NOI potential for the property assets (excluding GAM) of €79m by Q117. This is higher than our forecast achieved NOI of €75m (by end 2017), perhaps because we are making different assumptions to the valuer (not disclosed) about occupancy, rent levels and letting incentives, and may represent a source of upside to our estimates going forward. Of the €1,042.6m expected value at completion, €1,024.5m applies to income-producing assets excluding land plots, and the implied NOI yield on this adjusted value is 7.71%. As we show on page 7, yields in the larger, more active markets in the region (Warsaw, Prague) have declined to c 6.0%, making the possibility of valuation gains driven by yield compression a real possibility. In Exhibit 9 we show the estimated movement in EPRA NAV per share for a range of possible valuation yields. A decline to 7.0% is estimated to lift 2017 NAV per share from €10.7 to €12.6. At 6.0% this is estimated to increase further to €16.1 per share. We also illustrate the result assuming full conversion of the warrants that have been granted to the founder and certain key managers. The warrants vest in three tranches, when the weighted average share price exceeds the trigger level for 60 consecutive days (1.8m warrants at a €7.5 average price, 1.4m at €10 and 1.4m at €12.5). In aggregate, a potential 4.6m shares would be created at a subscription price of €5 per share (generating c €23m of new capital). In the estimate that allows for warrant dilution, we have assumed that the additional equity generated by the conversion increases operating cash flow at a yield of 2%; this is a balance between the alternatives of paying down debt at a cost of c 4% or holding a higher cash balance with a negligible return. The potential upside in NAV per share is clear in both scenarios.

Exhibit 9: Sensitivity of NAV and NOI yield to valuation movements*

	2017e without warrant dilution being triggered				2017e including full warrant dilution			
	Forecast	Illustrated sensitivity			Forecast	Illustrated sensitivity		
Investment portfolio (€m)	1,042.6	1,146.7	1,233.5	1,334.8	1,042.6	1,146.7	1,233.5	1,334.8
Land assets (€m)	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Income generating portfolio (€m)	1,024.5	1,128.6	1,215.4	1,316.7	1,024.5	1,128.6	1,215.4	1,316.7
Company expected property NOI (€m)	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
NOI yield	**7.71%**	**7.00%**	**6.50%**	**6.00%**	**7.71%**	**7.00%**	**6.50%**	**6.00%**
EPRA NAV (€m)	571.6	675.6	762.4	863.7	571.6	698.8	785.6	886.9
Fully diluted number of shares (m)	53.6	53.6	53.6	53.6	53.6	58.3	58.3	58.3
EPRA NAV/share (c)	**10.7**	**12.6**	**14.2**	**16.1**	**10.7**	**12.0**	**13.5**	**15.2**
Operating cash flow after finance costs (€m)	30.0	30.0	30.0	30.0	30.0	30.4	30.4	30.4
Operating cash flow after finance costs as % NAV	5.2%	4.4%	3.9%	3.5%	5.2%	4.4%	3.9%	3.4%
Current share price	6.00							
Price/NAV	**0.56**	**0.48**	**0.42**	**0.37**	**0.56**	**0.50**	**0.45**	**0.39**

Source: Company data, Edison Investment Research. Note: based on a share price of €6.00

Among listed real estate companies investing in CEE and SEE, large discounts to NAV are common (up to 50% or more), although few are focused on Romania, where market conditions are currently favourable, to the same extent as GWI, and many have more challenging financing positions as a result of pre-global financial crisis strategies. Dividends are also currently rare among peers. While listed comparable companies such as Immofinanz, CA Immo, Secure Property Development & Investment and Eurobank Properties (recently renamed Grivalia) have varying exposure to the Romanian office market, they are geographically diversified. New Europe Property Investments (NEPI) is listed in Johannesburg with a secondary listing on London's AIM market. Like GWI, it is focused on commercial (both retail and office) property development and investment in Romania (80% of rental income). Since incorporation in 2007 it has built a consistent track record of NAV growth and growing distributions; it distributes at least 90% of its net rental profits, semi-annually, mostly satisfied by the issue of new shares via a scrip alternative. Like GWI, it is internally managed and combines property and asset management with development expertise in an integrated approach. With 2014 adjusted net assets of nearly €1.3bn and a current market cap of c €2.8bn it is larger than the younger GWI (2015 EPRA net assets of €434m and a current market cap of c €320m), but its valuation may give an indication of what GWI may be able to achieve as it develops. At a price of c €10.0, it is trading at a little more than twice 2014 adjusted NAV per share (€4.63) and the 2014 distribution of 32.22c represents a yield of c 3.2%.

Returning to GWI, at the current price of €6.00, our 2017 forecasts show GWI yielding 5.0% at a 44% discount EPRA NAV. Based on these same forecasts, but with a decline in yield from 7.71% to 7.0%, a price of €8 would still represent a 3.75% yield on the share price and a 33% discount to the adjusted 2017e EPRA NAV per share (including all warrant dilution) of 12.0c.

Potential dilutive effect of additional equity funding

We discuss GWI's funding requirements and funding options in detail on page 14. We think it unlikely that GWI would wish to raise less than €40m in an equity issue (seeking debt funding instead) and would only wish to raise a larger amount of equity (by which we mean €80-100m or more) if the issue price is attractive. We therefore believe an amount in between (our cash flow scenario analysis uses €60m, although our base case estimate includes no equity increase) is more likely. An equity increase of €60m at a price of €6 per share would dilute our FY17 EPRA NAV per share forecast by c 7% and our forecast FY17 operating cash flow per share after interest costs by c 9%. Potential offsets to this dilution in terms of market valuation of the shares are the larger market capitalisation and lower gearing that this would entail.

Exhibit 10: EPRA NAV per share dilution (2017e)

		Equity raise (€m)			
		40	60	80	100
Share issue price	5.50	-5.8%	-8.2%	-10.3%	-12.3%
	5.75	-5.3%	-7.5%	-9.5%	-11.3%
	6.00	-4.8%	-6.9%	-8.7%	-10.4%
	6.25	-4.4%	-6.3%	-8.0%	-9.5%
	6.50	-4.0%	-5.7%	-7.3%	-8.7%
	7.00	-3.3%	-4.7%	-6.0%	-7.2%

Source: Company data, Edison Investment Research

Exhibit 11: Cash flow per share dilution (2017e)

		Equity raise (€m)			
		40	60	80	100
Share issue price	5.50	-7.2%	-10.2%	-12.9%	-15.3%
	5.75	-6.7%	-9.6%	-12.1%	-14.4%
	6.00	-6.3%	-9.0%	-11.3%	-13.5%
	6.25	-5.9%	-8.4%	-10.6%	-12.7%
	6.50	-5.5%	-7.8%	-10.0%	-11.9%
	7.00	-4.8%	-6.9%	-8.7%	-10.5%

Source: Company data, Edison Investment Research

Financials

Net operating income increasing rapidly

2014 saw net operating income (NOI) increase from €5.3m to €12.9m as a result of investment in income-generating assets during the year, as well as increasing occupancy through active asset management. Q115 already shows an increase to €4.7m (or an annualised €18.9m) and our forecasts show it more than doubling in 2015 and continuing to increase strongly in 2016 and 2017. 2015 benefits from a full year contribution from acquisitions that completed in 2014, the recent completion of acquisitions agreed in Q414 (Nusco, and Unicredit in Q115 and Green Court in Q2), as well as the ramp-up in letting of the refurbished City Offices. 2016 benefits from a full contribution from recent acquisitions, as well as first-time, part-year contributions from Bucharest One and Globalworth Campus.

Management budgets c €79.0m of annualised contracted property NOI by Q117, plus c €2.7m pa of revenue in respect of Globalworth Asset Management (generated from the provision of asset management services to group properties). The majority of this revenue is offset by matching costs, effectively cost of sales. The management budget is similar to the NOI potential used by the external valuers and allows for an undisclosed element of frictional (but not structural) vacancy. By Q117 it effectively relates to completed assets owned today, as well as the current pipeline of development projects that are expected to be complete and let by that time. Matching this guidance to the near-term P&L development is not an easy task from current disclosure. The contracted occupancy indicated by management on an ongoing basis includes pre-lets that are not immediately income generating, often in relation to properties that are still under construction. Our own estimate for 2017 NOI is similar to management's indications, but is based on our estimates of actual occupancy, excluding pre-lets. However, as we are forecasting achieved cash rents on completed properties, during the development phase our NOI estimates trail management's contracted NOI guidance. We have assumed that all the commercial space, including that which is currently under development, is 95-100% (depending on the property) let by the end of 2017. For the newly let properties, occupancy and rental income are assumed to start at relatively high levels given pre-letting commitments, c three months after completion. We have prudently assumed six-month, rent-free periods on new lettings. This is the figure shown in our estimated P&L account in any given period.

By Q417, as estimated average occupancy catches up with the management's guided contracted occupancy (which includes pre-lets), our estimated NOI converges on management's figure (an annualised €75.0m versus €79.0m). We believe the small difference represents management's assumption that options over additional space at TAP will be exercised and that the TAP lettable area, NOI and invested costs will all be higher than included in our forecasts.

Exhibit 12: Estimated property NOI development (€m)			
	Q116e	Q117e	Dec 2017e
Management budgeted property NOI (contracted basis, inc pre-lets)	70.4	79.0	N/A
Edison estimated achieved NOI (cash basis excluding pre-lets, average occupancy)	41.9	50.4	72.2
Edison estimated NOI (cash basis excluding pre-lets, but after incentives, average occupancy)	37.2	50.4	70.6
Edison fully let NOI	**56.6**	**74.5**	**75.0**

Source: Company data, Edison Investment Research. Note: Property NOI excludes GAM.

Management believes that having invested in building out the GWI infrastructure and team during 2014, administrative expenses can be held relatively flat (€11.7m in FY14, up from €1.9m). This is reflected in our estimates, with some allowance for inflation in FY16 and FY17.

Our base case numbers build in the current expected uplift to valuation on completion of developments (see Exhibit 2 on page 5), but make no assumption that valuation yields may contract and converge on the levels found in other CEE capitals such as Prague and Warsaw. We examine the potential for yield-driven valuation gains in the valuation section on page 10. In FY15 we expect only €600k (completion of TAP extension), but forecast €101.7m in FY16 as a result of the targeted development completions at Bucharest One, Campus Phase 1 and Gara Herastrau.

Exhibit 13: Key financial data – P&L

€000's	2013	2014	2015e	2016e	2017e
Property NOI	259.6	15,140.0	29,464.8	39,886.5	62,424.4
Other property related revenues/costs	5,044.7	(2,247.0)	(2,000.0)	(2,000.0)	(2,000.0)
Net operating income (NOI)	5,304.3	12,893.0	27,464.8	37,886.5	60,424.4
Administrative expenses	(1,856.2)	(11,654.0)	(11,650.0)	(11,883.0)	(12,120.7)
Acquisition costs	(108.0)	(2,476.0)	(1,000.0)	(250.0)	0.0
Fair value gain on investment property	1,362.6	25,003.0	600.0	101,700.0	0.0
Bargain purchase gain on acquisition of subsidiaries	9,377.3	80,249.0	9,999.6	0.0	0.0
Gain on sale of subsidiary	0.0	198.0	0.0	0.0	0.0
Share based payments	(43.8)	(136.0)	(150.0)	(150.0)	(150.0)
FX gain/(loss)	(77.7)	(355.0)	0.0	0.0	0.0
EBITDA (excluding fair value gains and bargain purchase)	3,218.6	(1,728.0)	14,664.8	25,603.5	48,153.8
Profit before financing cost (EBIT)	13,958.5	103,722.0	25,264.4	127,303.5	48,153.8
Finance cost	(255.0)	(8,322.0)	(20,797.0)	(19,546.0)	(19,546.0)
Finance income	1.8	327.0	80.0	80.0	80.0
Net finance (cost)/income	(253.2)	(7,995.0)	(20,717.0)	(19,466.0)	(19,466.0)
Profit before tax (PBT)	13,705.3	95,727.0	4,547.4	107,837.5	28,687.7
Current income tax expense	(777.5)	(64.0)	(39.5)	(61.4)	(286.9)
Deferred income tax expense	(198.1)	(5,036.0)	(96.0)	(16,272.0)	0.0
Income tax expense	(975.7)	(5,100.0)	(135.5)	(16,333.4)	(286.9)
Minorities	(39.0)	497.0	0.0	0.0	0.0
Attributable profit after tax (PAT)	12,690.6	91,124.0	4,411.9	91,504.1	28,400.9
Other comprehensive income	0.0	0.0	0.0	0.0	0.0
Total attributable comprehensive income	12,690.6	91,124.0	4,411.9	91,504.1	28,400.9
Adjusted earnings					
Reported PBT	13,705.3	95,727.0	4,547.4	107,837.5	28,687.7
Adjusted for:					
Fair value gain on investment property	(1,362.6)	(25,003.0)	(600.0)	(101,700.0)	0.0
Bargain purchase gain on acquisition of subsidiaries	(9,377.3)	(80,249.0)	(9,999.6)	0.0	0.0
Share based payments	43.8	136.0	150.0	150.0	150.0
Adjusted PBT	3,009.2	(9,389.0)	(5,902.3)	6,287.5	28,837.7
Less current tax	(777.5)	(64.0)	(39.5)	(61.4)	(286.9)
Adjusted profit after tax	2,231.7	-9,453.0	-5,941.7	6,226.1	28,550.9
Basic average number of shares (m)	7.3	45.1	53.6	53.6	53.6
Fully diluted average number of shares (m)	7.3	45.1	53.6	53.6	53.6
EPS - basic (€c)	173.9	202.1	8.2	170.6	52.9
EPS - diluted (€c)	173.9	202.1	8.2	170.6	52.9
EPS - adjusted and diluted (€c)	30.6	(21.0)	(11.1)	11.6	53.2
Operating cash flow after finance costs per share (€c)	0.1	(71.7)	(6.0)	15.1	55.9
DPS (€c)	0.0	0.0	1.5	10.0	30.0

Source: Company data, Edison Investment Research

For 2015 we have assumed a (non-cash) bargain purchase gain of €10m on the acquisitions of the corporate entities owning Unicredit HQ, Nusco Tower and Green Court (aggregate consideration €129.7m). For 2014 the gain was €80.2m on an aggregate acquisition spend (both shares and cash) of €74.6m.

The weighted average cost of servicing GWI's bank debt (all floating rate) as 31 December 2014 was 3.99%. We have applied this rate, plus a higher rate for the short-term financing facility (see below) to our estimate of average debt in FY15-17. We have assumed that the short-term facility is repaid at the end of Q315, although each additional quarter would add c €3m to our forecast interest expense. We assume that long-term debt carries an interest rate of 4% going forward.

Management believes that tax management and available tax losses will limit current tax payments during our forecast period. We have allowed for non-cash deferred tax charges in relation to our forecast valuation gains. Unused Romanian tax losses carried forward were €40m at the end of 2014, representing a deferred tax asset of €6.4m, of which just €1.1m has been recognised in the balance sheet.

Financing committed acquisitions and development

As at 31 December 2014 GWI had €205m of debt or €183m of net debt, allowing for €22m of cash and equivalents. The loan to value (LTV) ratio was 34.4%. Estimated future capital investment in the currently active development projects is estimated by management at c €188m (as shown in Exhibit 2 on page 5). We have included this amount in our financial modelling and assumed €128.6m in 2015 and €59.6m in 2016, based on the target completion dates. At the end of Q115, net debt was €271m and the LTV was 42.7%.

The acquisitions of Nusco (c €46m) and Unicredit (c €43m) completed in Q1, with the equity portion (we estimate €37m, although €2.0m of this, in respect of Unicredit, was carried as a pre-paid asset at the end of 2014, along with €4.1m for Green Court which completed in Q2) being funded from the proceeds of a short-term debt facility arranged by the holding company. The balance of funding is provided by existing senior debt facilities secured on the assets of €52m.

The €100m short-term facility expires on 31 July 2016, by which time GWI expects it to have been repaid with the proceeds of future long-term debt arrangements and/or equity financing. It is in two parts, Facility A and Facility B. Facility A (€55m) was originally entered into as at 31 March 2015, but has since been amended by the 26 June announcement of Facility B (together, the €100m Facility). The Facility has been provided by subsidiaries of funds managed by Oak Hill Advisors and certain of its advisory affiliates (c €67m), and by York Capital Management Global Advisers, through York Global Finance Offshore BDH (Luxembourg) Sarl (c €33m). Facility A was particularly aimed at funding the equity portion of the consideration for Unicredit and Nusco. Facility B was aimed at providing the equity portion of the consideration for Green Court A, will provide funding for the development of Bucharest One and is also available for general corporate purposes. The Facility pays both an issue premium and a repayment premium, in addition to a cash coupon on the outstanding balance. GWI says the likely cost will be between €13.8m and €16.8m, but could reach c €22.3m if the facility is unexpectedly used for the full term.

The Facility provides short-term funding while the company negotiates longer-term funding, which is likely to include a mix of both longer-term debt and additional equity, and is intended to both repay the facility and fund ongoing development activity and future potential acquisitions. Our estimates implicitly assume that funding needs are met by successfully arranging additional debt facilities, although we show a sensitivity analysis of NAV and cash flow per share to a range of equity-raising scenarios in Exhibits 10 and 11. Our base estimates show total debt increasing to a peak of c €500m at the end of 2016, before falling to c €475m in 2017 despite increasing dividend distributions. Our estimated LTV peaks at 52.9% in 2015, falls to 48.3% in 2016 (including revaluation gains on completed development properties) and 45.5% in 2017. Throughout the forecast period, our estimated LTV remains below management's intended maximum 60%.

Exhibit 14 breaks down our estimate of GWI's debt facilities. We have based this on 2014 data, updated for post-2014 announcements. Maturities on debt facilities covering assets held at 31 December 2014 are low during 2015, and are against established let properties. We do not anticipate near-term maturities on the recently acquired assets (Unicredit HQ, Nusco Tower and Green Court) and these are also well established, let properties. The recently arranged short-term facilities are secured against the general assets of the group. The group LTV shown assumes that all facilities are drawn, whereas at 31 December 2014 there was €4m undrawn, and we estimate that the equity consideration of the recent acquisitions will have utilised c €44m (allowing for prepayments as at 2014 year end) of Facility A. The €45m Facility B more than covers the €40m development spend that we forecast for Bucharest One during FY15 (out of a total €108m FY15 forecast development spend).

Exhibit 14: Estimated current debt facilities (€000s), based on 2014 data and post-2014 events

Asset secured	Facility (€m)	Maturity	LTV
BOB	34.5	Dec-18	68%
BOC	84.4	Dec-18	59%
TCI	26.2	Dec-32	34%
City Offices (1)	0.5	Dec-20	23%
City Offices (2)	14.8	Mar-19	23%
Upground Towers	37.0	Dec-16	34%
TAP (1)	4.6	Dec-20	25%
TAP (2)	4.0	Oct-15	25%
Bucharest One	0.0	N/A	N/A
Globalworth Campus	0.0	N/A	N/A
Gara Herastrau	0.0	N/A	N/A
Luterana	0.0	N/A	N/A
Herastrau One	0.0	N/A	N/A
Unicredit HQ	23.8	N/K	50%
Nusco Tower	29.2	N/K	49%
Green Court	26.9	N/K	59%
Short-term facility (group)	100.0	Jul-16	N/A
Total	385.9		51%

Source: Company data, Edison Investment Research. Note: Property values as at 31 December 2014, including subsequently completed acquisitions (Nusco Tower, Green Court, Unicredit HQ). Facilities as at 31 December 2014, including implied debt on subsequent completed acquisitions and including short-term debt facility secured on group assets.

There should be room to extend the facilities (€15.3m) secured against City Offices (carried value of €65m) or refinance them for a larger amount, providing perhaps €15-20m of secured debt headroom, although perhaps after the refinancing of the short-term facility.

Exhibit 15: Illustration of estimated peak (FY16) funding requirements/sources (€m)

Net debt	**(484.7)**	
Cash	15.2	
Gross debt	(499.9)	Estimated gross debt at H216.
Current estimated debt facilities:		
Bank debt	(286.1)	Current facilities.
Short-term facility	(100.0)	For refinancing by July 2016.
Total current facilities	(386.1)	
Funding gap	(113.8)	
Long-term funding gap (repay short term facility)	(213.8)	
Provided by:		
City Offices re-finance	17.2	Potential refinance to 50% LTV.
Equity	60.0	Potential equity increase.
New debt facilities	136.6	Estimated value at completion of development projects €411.2m.

Source: Company data, Edison Investment Research

As shown in Exhibit 15, this would leave a balance of c €213.8m of new long-term funding requirement (debt and/or equity) to support the development projects to completion. Given that bank appetite for development lending is limited, we anticipate that GWI will seek to provide a proportion of this sum, maybe a significant proportion, with new equity or group debt over the next few months. Exhibit 15 illustrates that a €60m increase (it could be higher or lower) in equity would require an additional €136.6m of long-term funding over the next 12-18 months. This would represent c 50% of the c €267m expected construction costs of Bucharest One and Globalworth Campus Phases 1 and 2.

Dividends becoming likely once developments complete

GWI's strategy for generating shareholder returns is very much focused on building a cash-generative portfolio capable of sustaining attractive and recurring dividend payments, supported by the potential for capital gains. Capital gains may be a function of successful development activity, asset management and possible valuation yield contraction (although there is always the risk that yields may increase under certain circumstances). For 2014 GWI saw an operating cash outflow, after financing costs, and net of tax of €32.3m. EBITDA, excluding valuation and bargain purchase gains was a small negative €1.7m, with net interest paid of €6.7m (P&L charge of €8.0m) and working capital movements. For 2015, 2016 and 2017 we forecast positive operating cash flow after financing costs of €3.2m (6 cents per share), €8.1m (15 cents per share) and €30m (56 cents per share) respectively. Management is committed to dividend payments at the earliest opportunity, although, given the considerable planned development expenditure in 2015 (we estimate c €129m) we would expect dividends to start at a modest level. Development spending should slow in 2016 (we estimate c €60m), while earnings and operating cash flow should build and we have assumed that a modest first dividend of 1.5 cents per share is declared in respect of H215, likely to paid during H116. Seeking a balance between retaining cash for development expenditure and returning free operating cash to shareholders, we have assumed 10c per share in dividends in respect of 2016 (of which one-third is paid in H2 in respect of H1) and 30c in respect of 2017.

Exhibit 16: Key financial data – cash flow

€000's	2013	2014	2015e	2016e	2017e
PBT	13,705.3	95,727.0	4,547.4	107,837.5	28,687.7
Adjust for:					
Fair value gain on investment property	(1,362.6)	(25,003.0)	(600.0)	(101,700.0)	0.0
Bargain purchase gain on acquiistion of subsidiaries	(9,377.3)	(80,249.0)	(9,999.6)	0.0	0.0
Gain on sale of subsidiaries	0.0	(198.0)	0.0	0.0	0.0
Share based payments	43.8	136.0	150.0	150.0	150.0
Depreciation on other long term assets	0.0	129.0	0.0	0.0	0.0
FX gain/(loss)	77.7	355.0	0.0	0.0	0.0
Net financing costs	253.2	7,995.0	20,717.0	19,466.0	19,466.0
Cash flows from operating activities before changes in working capital	3,340.1	(1,108.0)	14,814.8	25,753.5	48,303.8
(Increase)/decrease in trade & other receivables	(4,592.0)	2,659.0	(7,429.4)	(4,924.6)	(244.4)
Increase/(decrease) in trade & other payables	1,519.3	(26,578.0)	10,157.2	6,811.8	1,679.2
Interest paid	(253.2)	(6,698.0)	(20,797.0)	(19,546.0)	(19,546.0)
Interest received	0.0	143.0	80.0	80.0	80.0
Income tax paid	(10.1)	(745.0)	(39.5)	(61.4)	(286.9)
Cash flows from operating activities	4.1	(32,327.0)	(3,214.0)	8,113.3	29,985.7
Expenditure on investment property under refurbishment & development	(1,768.9)	(56,108.0)	(110,797.0)	(69,600.0)	(6,601.0)
Advances for investment property	(8,000.0)	(9,251.0)	0.0	0.0	0.0
Payments for acquisition of subsidiaries less cash acquired	(26,548.4)	(27,683.0)	(43,700.0)	0.0	0.0
Proceeds from sale of subsidiary less cash disposed	0.0	126.0	0.0	0.0	0.0
Acquisition of other long term assets	0.0	(60.0)	0.0	0.0	0.0
Cash flows from investing activities	(36,317.3)	(92,976.0)	(154,497.0)	(69,600.0)	(6,601.0)
Proceeds from share issuance	53,093.5	78,735.0	0.0	0.0	0.0
Payment of share capital issue costs (charged to equity)	(4,441.6)	(1,945.0)	0.0	0.0	0.0
Payment of loan arrangement fees	0.0	(1,873.0)	0.0	0.0	0.0
Dividends paid in period	0.0	0.0	0.0	(2,592.8)	(8,940.8)
Cash flows from financing	48,651.9	74,917.0	0.0	(2,592.8)	(8,940.8)
Other (increase)/decrease in net debt (including debt assumed on acquisition)	(23,294.4)	(121,702.2)	(79,900.0)	0.0	0.0
(Increase)/decrease in net debt	(10,955.8)	(172,088.2)	(237,611.0)	(64,079.6)	14,443.8
Opening net (debt)/cash	0.0	(10,955.8)	(183,044.0)	(420,655.0)	(484,734.5)
Closing net (debt)/cash	(10,955.8)	(183,044.0)	(420,655.0)	(484,734.5)	(470,290.7)

Source: Company data, Edison Investment Research

Exhibit 17: Key financial data – balance sheet

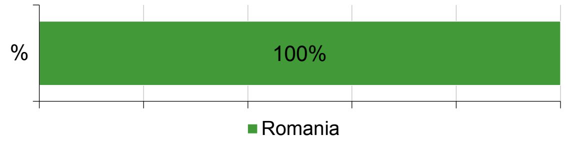
€000's	2013	2014	2015e	2016e	2017e
Non-current assets					
Investment property	121,334.7	599,257.0	860,700.0	1,034,000.0	1,042,600.0
Goodwill	12,616.5	12,349.0	12,349.0	12,349.0	12,349.0
Advance for investment property	8,750.0	14,454.0	11,151.0	9,151.0	7,152.0
Other long term assets	172.4	657.0	657.0	657.0	657.0
Long term prepayments	113.5	956.0	956.0	956.0	956.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0
Total non-current assets	142,987.1	627,673.0	885,813.0	1,057,113.0	1,063,714.0
Trade & other receivables	11,043.2	17,029.0	24,458.4	29,383.0	29,627.4
Income tax receivable	1.9	299.0	299.0	299.0	299.0
Prepayments	135.3	1,738.0	1,738.0	1,738.0	1,738.0
Cash & equivalents	9,505.9	21,957.0	34,246.0	15,166.5	4,610.3
Investment property held for sale	1,875.8	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	22,562.0	41,023.0	60,741.4	46,586.5	36,274.7
Total assetd	165,549.1	668,696.0	946,554.4	1,103,699.5	1,099,988.7
Interest bearing loans & borrowings	(165.4)	(143,814.0)	(293,714.0)	(438,714.0)	(413,714.0)
Deferred tax liabilities	(12,432.3)	(47,111.0)	(57,499.4)	(73,771.4)	(73,771.4)
Trade & other payables	0.0	(1,052.0)	(1,912.5)	(2,562.0)	(3,935.4)
Finance lease liabilities	(20.8)	(23.0)	(23.0)	(23.0)	(23.0)
Deposits from tenants	(28.5)	(983.0)	(983.0)	(983.0)	(983.0)
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	(12,647.0)	(192,983.0)	(354,131.9)	(516,053.3)	(492,426.7)
Interest bearing loans & borrowing	(20,296.2)	(61,187.0)	(161,187.0)	(61,187.0)	(61,187.0)
Trade & other payables	(11,494.3)	(21,309.0)	(30,605.7)	(36,768.0)	(37,073.8)
Finance lease liabilities	(25.5)	(20.0)	(20.0)	(20.0)	(20.0)
Income tax payable	(726.1)	(23.0)	(23.0)	(23.0)	(23.0)
Deposits from tenants	(81.0)	(433.0)	(433.0)	(433.0)	(433.0)
Other current liabilities	0.0	0.0	(2,808.0)	(2,808.0)	(2,808.0)
Total current liabilities	(32,623.0)	(82,972.0)	(195,076.7)	(101,239.0)	(101,544.8)
Total liabilities	(45,270.1)	(275,955.0)	(549,208.5)	(617,292.4)	(593,971.6)
NET ASSETS	120,279.0	392,741.0	397,345.9	486,407.1	506,017.1
Non-controlling interests	(588.2)	(6.0)	(6.0)	(6.0)	(6.0)
Shareholders' equity	119,690.7	392,735.0	397,339.9	486,401.1	506,011.1
Adjustments to EPRA:					
Add deferred tax liability	12,432.3	47,111.0	57,499.4	73,771.4	73,771.4
Deduct goodwill as a result of deferred tax	(5,965.2)	(5,697.0)	(8,222.1)	(8,222.1)	(8,222.1)
EPRA NAV	126,157.8	434,149.0	446,617.2	551,950.4	571,560.4
Period end number of shares (m)	20.9	53.6	53.6	53.6	53.6
Fully diluted period end number of shares (m)	20.9	53.6	53.6	53.6	53.6
Basic NAV per share (€)	5.73	7.32	7.41	9.07	9.43
EPRA NAV per share (€)	6.03	8.09	8.33	10.29	10.65
LTV	16.9%	34.4%	52.9%	48.3%	45.5%

Source: Company data, Edison Investment Research

Contact details

Office 116
3 George Contantinescu Street
Bucharest 020339
Romania
+40 (0) 21 319 35 66/67
www.globalworth.com

Revenue by geography (2014)



Key management & board members

Independent Chairman: Geoff Miller

Geoff has more than 20 years' experience in research and fund management in the UK, specialising in the finance sector, with a focus on the speciality finance, insurance and investment company subsectors. Based in Guernsey, he is CEO of GLI Finance, a non-executive director of Hastings Insurance Group and a director of a number of private companies.

Founder and CEO: Ioannis Papalekas

Ioannis founded Globalworth in February 2013. He has more than 16 years' real estate investment and development experience, of which 14 years were spent in Romania where he previously created a successful real estate investment and development group. He is experienced in the acquisition, strategic planning, development, reconstruction, refurbishment, operation and asset management of land and buildings of all major types in Romania.

Deputy CEO and CIO: Dimitris Raptis

Dimitris joined Globalworth in November 2012. He has 16 years' experience in the financial services and real estate investment management industries with Deutsche Bank, where he held senior real estate investment positions in the Asset & Wealth Management division. From 2000-08, his senior role as a member of the team originating, structuring and executing real estate investments included SEE markets.

CFO: Andreas Papadopoulos

Andreas Papadopoulos is a Fellow of the Institute of Chartered Accountants in England and Wales. From 1999 to 2012, he worked for Ernst & Young in several Central and South-East European countries, including Romania and Slovenia. In Romania he was involved in the provision of audit and transaction advisory services for a number of significant real estate transactions. Later, he was CFO of part of Leptos Group, one of the largest Cypriot real estate development and hotel groups in Cyprus and Greece.

Principal shareholders	(%)
Ioannis Papalekas	42.1
York Capital	20.9
Oak Hill Advisors	13.4
Gordel Holdings	5.0
Altshuler Shaham Group	3.7

Companies named in this report

Immofinanz Ag VIE:IIA, CA Immobilien Ag, VIE:CAI, Secure Property Development & Investment, LON:SPDI, New Europe Property Investments (NEPI), LON:NEPI NEP:JSE, and Grivalia Properties REIC (GRIV) (formerly known as Eurobank Properties REIC [EUPRO])