Globalworth Real Estate Investments

Trading update and placing

Income and capital growth on track

Real estate

Globalworth (GWI) has published full interim results and a trading update into September, followed by a proposed placing of new shares, through which it aims to raise c €35m or more to fund continued portfolio growth. H1 shows income growing strongly, following 2014 asset growth, while NAV benefited from valuation gains on the back of development progress and gains on completed asset purchases at below fair value. The Romanian economy and property market continue to perform well, while a highly experienced management team continues to meet its operational and financial targets.

Year end	NOI (€m)	PBT** (€m)	EPS** (c)	EPRA NAV\share (€)	DPS (c)	P/E (x)	Yield (%)
12/14	12.9	(9.4)	(21.0)	8.09	0.0	N/A	N/A
12/15e	28.1	(3.0)	(5.5)	9.36	1.50	N/A	N/A
12/16e	37.9	7.2	13.3	10.40	10.0	43.6	1.7
12/17e	60.4	29.2	53.9	10.83	30.0	10.8	5.2

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.

Income growth emerging strongly

H1 net operating income more than doubled, reflecting portfolio growth and increased occupancy, and there is much more to come from recent acquisitions and development completions over the next couple of years. We forecast positive underlying earnings from 2016 and growing cash flow to support the introduction of a dividend. NAV was also up by c 9% in H115, reflecting valuation gains (mostly from progress on Bucharest One as it nears completion) and purchase gains. Management plans further investment and has recently signed MoUs on further asset acquisitions that are currently subject to due diligence. Existing shareholders have expressed interest in subscribing to a significant proportion of the placing, proposed at €6 per share, to fund new acquisitions and ongoing developments, and to meet general corporate needs. The company continues to negotiate long-term debt funding.

Operating conditions remain favourable

The Romanian economy continues to perform well. With little impact from the Ukrainian crisis and Russian recession, GDP is variously forecast to grow 3-4% in 2015. Demand for quality, modern commercial property continues to exceed new supply and valuation yields have continued to tighten, while remaining well ahead of those in more established CEE capitals.

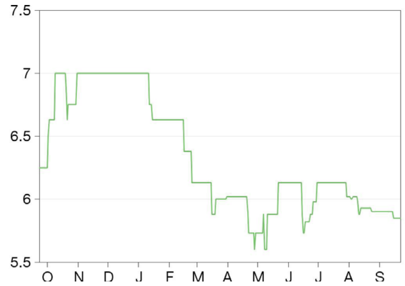
Valuation: NAV support with cash flow building

The shares are trading at a 47% discount to our forecast 2017 EPRA NAV per share, with a forecast yield of c 5%. We estimate that the proposed placing will dilute 2017e NAV/share by less than 5%. Further tightening in valuation yields would be positive. Our analysis explores the potential for valuation gains as well as the likely dilutive effects of share issuance.

23 September 2015

Price	**€5.80**
Market cap	**€311m**
Net debt (€m) at 30 June 2015	322.5
Shares in issue (excluding proposed placing of c 5.8m shares)	53.6m
Free float	22.6%
Code	GWI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.3)	0.4	(6.4)
Rel (local)	2.5	14.0	3.2
52-week high/low		7.00p	5.60p

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 event

Q3 NAV announcement	Est. October/ November 2015

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Edison profile page

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

Growth in income and valuation on track

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. H115 results reflect the increasing income contribution from the growing portfolio, although there is more to come from the existing assets as recent acquisitions fully contribute and developments complete. We estimate that GWI should be able to generate strongly growing cash flows to support shareholder distributions, and there is good potential for NAV to benefit from a convergence of property yields towards those seen in more established CEE capitals. Operational and financial progress in H115 was in line with our forecasts laid out in our initiation note published in July 2015. In addition to H115 results, GWI has published a trading update to 17 September.

Highlights of the interim results and trading update

- H115 net operating income (NOI) increased to €11.8m from €3.9m in H114, reflecting the increasing size of the income-generating investment portfolio. The acquisition of three assets that had previously been announced completed during H115: Unicredit HQ and Nusco Tower on 31 March, and Green Court "A" on 30 June. Contracted NOI as at 30 June is stated by the company as €45.4m, which has increased to €47.3m as at 15 September. Of the €47.2m, €35.9m relates to the completed portfolio and €11.3m to properties under development. NOI reflected in the P&L and contracted NOI should converge over time as recently acquired properties fully contribute, as developments complete, and as leasing incentives (typically rent-free periods) run off.
- The gross lettable area (GLA) of the completed portfolio ('standing assets') reached 327k sqm at 30 June (31 December 2014: 224k sqm). In addition to the completed acquisitions, the increase includes the completion of an additional c 45k sqm of pre-let light industrial warehouse space at the TAP property. An additional c 9k sqm was delivered in Q3, taking total GLA to 336k sqm. The Bucharest One development will add c 49k sqm to GLA on completion, which we expect by the end of 2015, taking the total to c 385k sqm.
- Average occupancy of the commercial standing properties is now 88.1% (31 December: 77.2%).The recently refurbished City Towers is the only standing property with occupancy of less than 85%, which has recently increased to 21.0%. The weighted average lease length at 30 June was 7.1 years (6.2 years in December), and remains at c 7 years as of 15 September. Occupancy has benefited from including fully let (Unicredit HQ, Green Court "A", and the TAP extension) and highly-let (Nusco Tower, 91.1% at acquisition but now 96.0%) properties as well as leasing progress on the existing commercial standing portfolio.
- The open market value (OMV) of the investment portfolio, as carried in the balance sheet, was €808.8m at 30 June compared with €599.3m at 31 December. Of the €208.9 increase, the completed acquisitions added €159.6m, investments (mostly development spend) added €26.8m, and valuation gains (predominantly recognising development progress on Bucharest One) added €23.2m. The expected value of the portfolio at completion is now stated at €1,049.6m.
- Returning to the P&L, H115 administrative expenses grew to €3.0m from €2.6m in H114, but were well down on H214 (€9.0m including some non-recurring items) while the increase was materially less than the increase in NOI.
- In addition to the revaluation gains, there were H1 purchase gains of €15.8m, in respect of the acquisition at less than the fair value of the assets of the companies owning Unicredit HQ, Nusco Tower, and Green Court "A".

- H115 earnings before interest and tax (EBIT) was €47.4m compared with €80.6m in H114, which included a significantly larger purchase gain. Excluding both purchase gains and valuation gains, underlying EBIT was €8.4m compared with a loss of €0.2m in H114 and a loss of €1.3m in H214.
- Net finance charges increased from €3.9m in H114 (and €4.0m in H214) to €7.7m in H115, reflecting an increase in average debt acquired to finance the growth of the portfolio. Current tax remains minimal, reduced by tax losses carried forward, while deferred tax in respect of valuation gains was €5.1m. Net profit was €34.5m compared with €75.6m in H114 while in underlying terms (adjusted for valuation gains, purchase gains, share-based payments, and deferred tax movements) we estimate a maiden profit of €0.7m (H114: €4.1m loss and H214: €5.4m loss).
- 30 June 2015 net assets were €427.3m or €7.97 per share (31 December: €392.7m or €7.32 per share) while EPRA basis NAV (adding back deferred taxes and the negative fair value adjustment to interest rate swaps) was €487.5m or €9.09 per share (31 December: €434.1m or €8.09 per share).
- Gross debt at 30 June was €358.0m and net debt €322.5m (31 December: €205.0m/€183.0). During the period, debt of €52.7m has been assumed/rolled over with the completed acquisitions and the additional €109m of third-party funding includes the €100m holding company short-term facility (to 31 July 2016) arranged in July. The loan to value ratio (LTV) is 44.9% (31 December: 34.4%). A further two loan facilities (€32.5m) have been concluded during Q3 for a pro forma LTV of 48.9%.

Portfolio and letting update

Including the three acquisitions of standing assets completed year to date, GWI's portfolio comprises 14 properties, of which 13 are located in Bucharest. It also owns a logistics park (TAP) in the peripheral industrial hub of Timisoara. In addition to the acquisitions, H115 GLA was increased by the delivery of 45k sqm of new space at TAP, pre-let to Continental. Subsequently, a further 9k sqm of space, pre-let to Elster, has also been added.

Exhibit 1: Portfolio growth

	15 Sep 2015	2014	2013
Number of assets	14	11	4
GLA (standing), sqm	335,883.0	224,479.0	39,901.0
Carried value ('as is') €m	808.8	599.3	117.8
GWI estimated completion value, €m	1,049.6	889.8	240.2

Source: Company data, Edison Investment Research

There are nine standing assets, including seven office properties, the TAP logistics park and Upground Towers, a modern two-tower residential complex with 571 apartments. Situated close to the new central business district (CBD), Upground Towers supports GWI in providing turnkey solutions to tenants who are looking to relocate. Additionally, there are two principal developments and two smaller projects that are currently active, as well as two land assets for which there are no immediate development plans.

The appraised value of the portfolio on completion, after remaining investment of €168.6m, has been assessed by external valuers at €1,049.6m compared with the current carried value of €808m. Taking the NOI expected by management as at March 2018, which allows for property completions and additional lease agreements, the NOI yield on the completion value is 7.5%. The yield on the amount that GWI expects to have invested at completion is 13.7%, reflecting its ability to assemble the portfolio at attractive prices as well as the expected additional uplift from its developments.

Exhibit 2: Portfolio value at 30 June 2015 (€m)

Property	Status	Investment cost	Carried value	Capex	Valuation uplift	Est. completion value
BOB	Completed	42.0	52.1		0.0	52.1
BOC	Completed	110.0	143.4		0.0	143.4
TCI	Completed	58.0	77.1		0.0	77.1
City Offices	Completed	51.0	64.4		0.0	64.4
Upground Towers	Completed	58.0	109.0		0.0	109.0
TAP	Completed/part dev.	33.5	43.0	13.7	3.5	60.2
Unicredit HQ	Completed	42.7	52.4		0.0	52.4
Nusco Tower	Completed	46.0	59.8		0.0	59.8
Green Court "A"	Completed	41.0	47.6		0.0	47.6
Bucharest One	Development	56.7	98.5	38.1	17.6	154.2
Globalworth Campus	Development	18.2	31.2	106.8	46.3	184.3
Gara Herastrau	Development	5.7	11.7	10.0	4.8	26.5
Land	Land	13.3	18.6		0.0	18.6
Total portfolio		576.1	808.8	168.6	72.2	1049.6

Source: Company data, Edison Investment Research

Exhibit 3: Portfolio NOI and yield (management expectations)

	Investment cost (€m)	Completed value (€m)	NOI (€m)			Expected March 2018 NOI yield (%)	
			Jun 15	Mar 17	Mar 18	On cost	On completed value
BOB	42.0	52.1	3.7	3.8	3.9	9.3	7.5
BOC	110.0	143.4	9.9	10.1	10.3	9.4	7.2
TCI	58.0	77.1	5.0	5.1	5.3	9.1	6.9
City Offices	51.0	64.4	1.5	6.5	6.5	12.7	10.1
Upground Towers	58.0	109.0	2.4	3.5	4.9	8.4	4.5
Unicredit HQ	42.7	60.2	3.8	3.9	4	9.4	6.6
Nusco Tower	46.0	52.4	4.3	4.6	4.6	10.0	8.8
Green Court "A"	41.0	59.8	3.5	3.7	3.7	9.0	6.2
TAP	33.5	47.6	3.5	3.5	4.9	14.6	10.3
Bucharest One	56.7	154.2	5.7	11.6	11.8	20.8	7.7
GWI Campus	18.2	184.3	4.2	10.7	16.5	90.7	9.0
Gara Herastraus	5.7	26.5	0.0	2.3	2.3	40.4	8.7
Land	13.3	18.6	0.0	0	0	0.0	0.0
Total property assets	576.1	1049.6	47.3	69.3	78.7	13.7	7.5

Source: Company data, Edison Investment Research

Development and leasing update

Three of the development projects are in the Bucharest new CBD area. The fourth is the further extension of TAP. In aggregate, the four active development projects had a current carried value ('as is') of €150.7m as of 30 June 2015, with an estimated €168.6m of remaining investment, and an appraised completion value of €391.6m.

Bucharest One is scheduled for completion by the end of 2015, with tenant occupation starting in Q116. Construction work continues to advance with management continuing to expect completion in Q414. As of 4 September, construction of the structure had reached the 23rd floor (of 26 floors) with the façade completed up to the 20th floor. Mechanical and electrical works are also underway and the property has been pre-certified with the Green Certification of LEED Platinum. Pre-letting had reached 54.3% as at September 2015 compared with 40.4% at year-end 2014, with continuing strong interest from potential tenants.

The first phase of Globalworth Campus is expected to complete in Q2-Q316 (our forecasts assume Q216, with occupation from Q3), and management expects the second phase to complete by late 2016/early 2017 (our forecasts assume completion by Q316, with occupation from Q4). A general construction contract is in place for the first phase of Globalworth Campus (buildings A and B). Demolition works and site preparation have been completed and construction is expected to reach the ground floor in October 2015. Building A is 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 is 28.5% let overall, similar to the end of 2014.

Also in progress, but on a smaller scale, is the Gara Herastrau project, 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 metres 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 more than half of the space by a multinational corporate is in advanced negotiation.

Investment pipeline

During September GWI has signed MoUs for the potential acquisition of a portfolio of 26 assets, a mixture of completed properties and land plots, as well as for the potential acquisition of a further two standing properties (combined GLA c 35k sqm). All are in Romania. The 26-asset portfolio has expected rental income of c €3.0m pa and has a large multinational corporate as anchor tenant. GWI is negotiating with that tenant in relation to it leasing 100% of one of its existing standing office properties. The two standing properties have the potential to add c 6.5m pa. Due diligence is being undertaken, but if GWI proceeds with both the asset portfolio and the standing properties, the potential investment cost is estimated by management as c €120m.

In addition to the newly-signed MoUs, the company has an active pipeline of potential investments that are at various stages of negotiation. These have a potential cost of c €200m and include office as well as logistics/light industrial investments.

However, as is typical in these things, it may be that GWI proceeds with none or some of these assets. It is clear that GWI is still in portfolio growth mode and we think it entirely possible that GWI will seek to raise additional equity (beyond the currently proposed placing) going forwards to support this.

Equity placing to fund growth

On 22 September, GWI announced a proposed non pre-emptive placing of new shares at €6.0 per share (a c 34% discount to H115 EPRA NAV per share but a small premium to the recently traded price). Management aims to raise approximately €35m or more if there is demand. A €35 raise suggests a c 5.8m (or 11%) increase on the current c 53.6m shares in issue. The placing proceeds are aimed at funding new acquisitions (particularly those subject to the recently signed MoUs), the company's ongoing development projects, and general corporate purposes. Although not underwritten, existing shareholders, York Capital Management (York), and Oak Hill Advisers LLP (Oak Hill) have made expressions of interest. York (a 20.9% shareholder) has indicated its interest in subscribing c €25m for c 4.2m new shares. Oak Hill (a 13.4% shareholder) has expressed an indicative interest in subscribing for sufficient shares to maintain its current holding in GWI.

The placing is expected to close no later than 28 September 2015.

Romanian market update

The Romanian economy continues to perform well and property market conditions remain positive. The currency has remained stable versus the euro in recent months (GWI's rents are fixed in euros in any case) and GDP growth is variously forecast at between 3% and 4%, a likely uptick from last year's 2.8%.

Meanwhile, prime yields in Bucharest property market have continued to contract/tighten, to 7.5%. Investor activity remains strong but not at the level of last year, while occupational demand remains strong. Total office take-up in H115 is estimated at c 131k sqm (of which only around c 16% were lease renewals), continuing to outstrip supply estimated at c 60k sqm.

Financials and forecast update

We discussed our financial forecasts in detail in our initiation note and the interim results suggest little substantive change to these. We will not factor in the new shares to be issued (c 5.8m assuming €35m of equity raised at €6 per share, or a c 11% increase on the current 53.6m shares in issue) until the placing has completed, but we show the potential impact on NAV per share and cash flow after financing costs per share in Exhibits 10 and 11 below. The analysis should be conservative in that it assumes that the proceeds of the equity raised are used to repay debt (at a cost of debt of 4.0%) and makes no assumption about reinvestment at potentially higher yields. 2017e EPRA NAV per share is diluted by c 4.4% and cash flow per share by c 5.5%.

H1 NOI was slightly ahead of the level implied by our forecasts and this feeds through to FY15, but we see no reason to change our 2016/17 NOI forecasts, which already build in development completions and leasing progress. We have also trimmed our net interest expense forecasts to reflect stronger H115 cash flow than implied in our forecasts, resulting from lower working capital needs and slower development spending than we had factored in. The changes substantially reduce our forecast 2015 underlying loss (profits adjusted for valuation gains and purchase gains) and noticeably lift the forecast 2016 underlying profit. The impact on 2017 is more muted. EPRA NAV per share also increases with the revised profit estimates. We continue to feed in the valuation uplifts on development completions that are expected by GWI, but have made small changes to the timing profile. Our forecasts continue to make the assumption that GWI meets all of its funding needs with new debt facilities on similar terms to its current bank facilities; however, as it seems likely that at least some of this need will be met with new equity issuance, we provide a sensitivity analysis in the valuation section below.

Exhibit 4: Earnings revisions

	NOI (€m)			PBT* (€m)			EPS* (€m)			EPRA NAV per share (€m)		
	New	Old	% chg	New	Old	% chg.	New	Old	% chg	New	Old	% chg
2015e	28.1	27.5	2.3	(3.0)	(5.9)	(49.6)	(5.5)	(11.1)	(50.4)	9.36	8.33	12.3
2016e	37.9	37.9	0.0	7.2	6.3	14.3	13.3	11.6	14.8	10.40	10.29	1.1
2017e	60.4	60.4	0.0	29.2	28.8	1.5	53.9	53.2	1.3	10.83	10.65	1.7

Source: Company data, Edison Investment Research. Note *PBT and EPS are on an underlying basis, excluding valuation movements, purchase gains, and employee share option expenses.

We also note (not shown in the table) that our forecasts continue to assume that a token maiden dividend is declared for H215, to be paid in H116, of C €1.5 per share, increasing through 2016 and 2017.

Exhibit 5: Key financial data – P&L

€000s	2013	2014	2015e	2016e	2017e
Property NOI	259.6	15,140.0	30,454.5	39,886.5	62,424.4
Other property related revenues/costs	5,044.7	(2,247.0)	(2,316.0)	(2,000.0)	(2,000.0)
Net operating income (NOI)	5,304.3	12,893.0	28,138.5	37,886.5	60,424.4
Administrative expenses	(1,856.2)	(11,654.0)	(11,646.0)	(11,878.9)	(12,116.5)
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	41,309.0	51,100.0	3,000.0
Bargain purchase gain on acquisition of subsidiaries	9,377.3	80,249.0	15,780.0	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)	(137.0)	(150.0)	(150.0)
FX gain/(loss)	(77.7)	(355.0)	64.0	0.0	0.0
EBITDA (excluding fair value gains and bargain purchase)	3,218.6	(1,728.0)	15,419.5	25,607.6	48,157.9
Profit before financing cost (EBIT)	13,958.5	103,722.0	72,508.5	76,707.6	51,157.9
Finance cost	(255.0)	(8,322.0)	(19,284.9)	(18,619.8)	(19,169.8)
Finance income	1.8	327.0	755.0	80.0	80.0
Net finance (cost)/income	(253.2)	(7,995.0)	(18,529.9)	(18,539.8)	(19,089.8)
Profit before tax (PBT)	13,705.3	95,727.0	53,978.6	58,167.8	32,068.1
Current income tax expense	(777.5)	(64.0)	18.7	(73.6)	(293.7)
Deferred income tax expense	(198.1)	(5,036.0)	(8,035.0)	(8,176.0)	(480.0)
Income tax expense	(975.7)	(5,100.0)	(8,016.3)	(8,249.6)	(773.7)
Minorities	(39.0)	497.0	0.0	0.0	0.0
Attributable profit after tax (PAT)	12,690.6	91,124.0	45,962.3	49,918.2	31,294.4
Other comprehensive income	0.0	0.0	0.0	0.0	0.0
Total attributable comprehensive income	12,690.6	91,124.0	45,962.3	49,918.2	31,294.4
ADJUSTED EARNINGS					
Reported PBT	13,705.3	95,727.0	53,978.6	58,167.8	32,068.1
Adjusted for:					
Fair value gain on investment property	(1,362.6)	(25,003.0)	(41,309.0)	(51,100.0)	(3,000.0)
Bargain purchase gain on acquisition of subsidiaries	(9,377.3)	(80,249.0)	(15,780.0)	0.0	0.0
Share based payments	43.8	136.0	137.0	150.0	150.0
Adjusted PBT	3,009.2	(9,389.0)	(2,973.4)	7,217.8	29,218.1
Les current tax	(777.5)	(64.0)	18.7	(73.6)	(293.7)
Adjusted profit after tax	2,231.7	(9,453.0)	(2,954.7)	7,144.2	28,924.4
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	85.7	93.1	58.3
EPS - diluted (€c)	173.9	202.1	85.7	93.1	58.3
EPS - adjusted and diluted (€c)	30.6	(21.0)	(5.5)	13.3	53.9
Operating cash flow after finance costs per share (€c)	0.1	(71.7)	3.4	18.6	54.9
DPS (€c)	0.0	0.0	1.5	10.0	30.0

Source: Company data, Edison Investment Research

Exhibit 6: Key financial data – balance sheet

€000s	2013	2014	2015e	2016e	2017e
Non-current assets					
Investment property	121,335	599,257	906,388	1,037,888	1,049,588
Goodwill	12,616	12,349	12,349	12,349	12,349
Advance for investment property	8,750	14,454	9,524	9,524	9,524
Other long term assets	172	657	720	720	720
Long term prepayments	113	956	1,679	1,679	1,679
Other long-term assets	0	0	0	0	0
Total non-current assets	142,987	627,673	930,660	1,062,160	1,073,860
Trade & other receivables	11,043	17,029	17,042	19,515	19,735
Income tax receivable	2	299	367	367	367
Prepayments	135	1,738	1,357	1,357	1,357
Cash & equivalents	9,506	21,957	24,245	11,246	8,054
Investment property held for sale	1,876	0	0	0	0
Other current assets	0	0	0	0	0
Total current assets	22,562	41,023	43,011	32,484	29,513
TOTAL ASSETS	165,549	668,696	973,671	1,094,644	1,103,373
Interest bearing loans & borrowings	(165)	(143,814)	(411,869)	(571,869)	(556,869)
Deferred tax liabilities	(12,432)	(47,111)	(65,836)	(74,012)	(74,492)
Trade & other payables	0	(1,052)	(1,516)	(1,516)	(1,516)
Finance lease liabilities	(21)	(23)	(13)	(13)	(13)
Deposits from tenants	(28)	(983)	(1,277)	(1,277)	(1,277)
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	(12,647)	(192,983)	(480,511)	(648,687)	(634,167)
Interest bearing loans & borrowing	(20,296)	(61,187)	(16,126)	83,874	83,874
Trade & other payables	(11,494)	(21,309)	(34,659)	(39,687)	(40,135)
Finance lease liabilities	(26)	(20)	(21)	(21)	(21)
Income tax payable	(726)	(23)	(29)	(29)	(29)
Deposits from tenants	(81)	(433)	(517)	(517)	(517)
Financial liabilities at fair value	0	0	(3,923)	(3,923)	(3,923)
Total current liabilities	(32,623)	(82,972)	(55,275)	39,697	39,249
TOTAL LIABILITIES	(45,270)	(275,955)	(535,786)	(608,990)	(594,918)
NET ASSETS	120,279	392,741	437,885	485,654	508,455
Non-controlling interests	(588)	(6)	0	0	0
SHAREHOLDERS' EQUITY	119,691	392,735	437,885	485,654	508,455
Adjustments to EPRA:					
Add deferred tax liability	12,432	47,111	65,836	74,012	74,492
Deduct goodwill as a result of deferred tax	(5,965)	(5,697)	(5,697)	(5,697)	(5,697)
Add negative fair value of interest rate swap	0	0	3,923	3,923	3,923
EPRA NAV	126,158	434,149	501,947	557,892	581,173
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	8.16	9.05	9.48
EPRA NAV per share (€)	6.03	8.09	9.36	10.40	10.83
LTV	16.9%	34.4%	47.2%	47.0%	45.1%

Source: Company data, Edison Investment Research

Update on longer-term funding

Exhibit 7: Estimated peak funding requirement

Net debt	(476.7)	H216 ‘peak’ estimate
Cash	11.2	H216 estimate
Gross debt	(488.0)	H216 ‘peak’ estimate
Current estimated debt facilities:		
Secured bank debt facilities at 30 June	(261.4)	Current facilities
Short-term secured facility at 30 June	(101.7)	For refinancing by July 2016
Total facilities at 30 June	(363.1)	
Green Court secured facility – July	(27.0)	
Land plot secured facility – August	(5.5)	
Total estimated current facilities	(395.6)	
Funding gap	(92.4)	
Long-term funding gap (after repayment short-term facility)	(194.1)	

Source: Company data, Edison Investment Research

At 30 June 2015 GWI had €358m of debt or €322m of net debt, allowing for €36m of cash and equivalents. The loan to value (LTV) ratio was 44.9%. During H1, the equity portions of the acquisitions of Nusco, Unicredit, and Green Court were funded from the proceeds of a short-term debt facility (initially €45m but subsequently extended to €100m) arranged by the holding company.

The balance of funding was provided by the roll-over of existing senior debt facilities secured on Nusco and Unicredit (€52.5m) and a newly-secured term facility arranged in July for €27m secured on Green Court. In August a €5.5m facility was arranged, secured against the land plots Luterana and Herastrau One.

As the current development projects proceed to completion, we estimate that gross debt will reach a peak of €488m in H216 (net debt €477m, LTV 47.0%). This does not allow for the proposed c €35m equity placing, or any possible additional investment plans that may subsequently be confirmed. The company says it is continuing to actively pursue various long-term debt funding alternatives aimed primarily at funding remaining development commitments, as well as refinancing the short-term facility. Depending on any new investment plans that may be announced, and considering the company's pipeline of investment opportunities, we think it possible that the longer-term funding plans may still include additional (to the current placing) new equity as well as debt. Exhibit 7 breaks down our estimate of GWI's current debt facilities. We have taken the €363m of facilities in place at 30 June and adjusted for the Green Court and Land Bank facilities recently arranged. Compared with our estimate of peak debt, there will be a need for an additional €92m of funding to be arranged, or €194m including refinancing the short-term facility. A number of debt funding options are available to GWI. There should be room to extend some of the existing secured facilities (eg City Offices' LTV is just 23%) or refinance them for a larger amount, and GWI has the option of raising development funding against the c €400m value of its development assets. It should be possible to raise investment funding against Bucharest One on completion (appraised completion value €154.2m), expected at the end of this year, but we still expect equity to be a part of the mix.

Exhibit 8: Key financial data – cash flow

€000s	2013	2014	2015e	2016e	2017e
PBT	13,705	95,727	53,979	58,168	32,068
Adjust for:					
Fair value gain on investment property	(1,363)	(25,003)	(41,309)	(51,100)	(3,000)
Bargain purchase gain on acquiistion of subsidiaries	(9,377)	(80,249)	(15,780)	0	0
Gain on sale of subsidiaries	0	(198)	0	0	0
Share based payments	44	136	137	150	150
Depreciation on other long term assets	0	129	77	0	0
FX gain/(loss)	78	355	(64)	0	0
Net financing costs	253	7,995	18,530	18,540	19,090
Cash flows from operating activities before changes in working capital	3,340	(1,108)	15,569	25,758	48,308
(Increase)/decrease in trade & other receivables	(4,592)	2,659	1,574	(2,472)	(220)
Increase/(decrease) in trade & other payables	1,519	(26,578)	377	5,028	447
Interest paid	(253)	(6,698)	(15,519)	(18,620)	(19,170)
Interest received	0	143	83	80	80
Income tax paid	(10)	(745)	(242)	(74)	(294)
Cash flows from operating activities	4	(32,327)	1,842	9,700	29,152
Expenditure on investment property under refurbishment & development	(1,769)	(56,108)	(98,041)	(80,400)	(8,700)
Advances for investment property	(8,000)	(9,251)	(2,000)	0	0
Payments for acquisition of subsidiaries less cash acquired	(26,548)	(27,683)	(68,827)	0	0
Proceeds from sale of subsidiary less cash disposed	0	126	0	0	0
Acquisition of other long term assets	0	(60)	(132)	0	0
Cash flows from investing activities	(36,317)	(92,976)	(169,000)	(80,400)	(8,700)
Proceeds from share issuance	53,094	78,735	0	0	0
Payment of share capital issue costs (charged to equity)	(4,442)	(1,945)	0	0	0
Payment of loan arrangement fees	0	(1,873)	(3,091)	0	0
Dividends paid in period	0	0	0	(2,593)	(8,941)
Cash flows from financing	48,652	74,917	(3,091)	(2,593)	(8,941)
Other (increase)/decrease in net debt (including debt assumed on acquisition)	(23,294)	(121,702)	(50,457)	0	0
(Increase)/decrease in net debt.	(10,956)	(172,088)	(220,706)	(73,293)	11,511
Opening net (debt)/cash	0	(10,956)	(183,044)	(403,750)	(477,042)
Closing net (debt)/cash	(10,956)	(183,044)	(403,750)	(477,042)	(465,531)

Source: Company data, Edison Investment Research

Valuation

Cash flow should be growing strongly

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. GWI has indicated an intention to pay out up to 90% of available free cash over time. Available cash flow depends on acquisition and development opportunities, but our starting point for available free cash is operating cash flow after financing costs, which we estimate will grow significantly through 2015-17. We also believe management is keen to begin dividend distributions as early as possible and we have taken the view that this could be in respect of H215, paid in H116, although this remains uncertain. 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% pay-out of operating cash flow after financing, representing a yield on the current share price of €5.80 of 5.2%.

Further yield compression would lift NAV

Our forecast EPRA NAV per share (before the current proposed placing) for 2017 is €10.8 and at €5.80 the shares are trading at a discount of 47%. 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. In this respect, it is interesting to look at New Europe Property Investments (NEPI), which 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) and is internally managed, and combines property and asset management with development activity. It has been listed since 2007, and has been able to build a consistent track record of NAV growth while distributing at least 90% of its net rental profits, semi-annually, mostly satisfied by the issue of new shares via a scrip alternative. It is also larger and more liquid that GWI. Nevertheless, its valuation may indicate what GWI may be able to achieve, at least directionally, as it continues to develop. At a price of c €10.0, with a market capitalisation of c €2.6bn, it is valued at a little more than twice 2014 adjusted NAV per share (€4.63), a highly unusual level of valuation anywhere in the sector, while the 2014 distribution of 32.22c represents a yield of c 3.2%.

Of the €1,049.6m expected value at completion, published at 30 June, €1,031.0m applies to income-producing assets excluding land plots, and on this management expects an NOI yield of 7.63% (7.5% on the whole portfolio including non-yielding land plots) by March 2018. Yields in Romania remain higher than in some other markets in the region (Warsaw and Prague have declined to c 6%), 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 recast €10.8 to €12.6. At 6.0% the forecast NAV would 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 total, 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 (based on a share price of €5.80)

	2017e – without warrant dilution being triggered				2017e including full warrant dilution			
	Forecast	Illustrated sensitivity			Forecast	Illustrated sensitivity		
Investment portfolio (€m)	1,049.6	1,142.9	1,229.4	1,330.3	1,049.6	1,142.9	1,229.4	1,330.3
Land assets (€m)	18.6	18.6	18.6	18.6	18.6	18.6	18.6	18.6
Income generating portfolio (€m)	1,031.0	1,124.3	1,210.8	1,311.7	1,031.0	1,124.3	1,210.8	1,311.7
Company expected property NOI (€m)	78.7	78.7	78.7	78.7	78.7	78.7	78.7	78.7
NOI yield	7.63%	7.00%	6.50%	6.00%	7.63%	7.00%	6.50%	6.00%
EPRA NAV (€m)	582.0	675.3	761.8	862.7	582.0	698.5	785.0	885.9
Fully diluted number of shares (m)	53.6	53.6	53.6	53.6	53.6	58.3	58.3	58.3
EPRA NAVPS (€c)	10.8	12.6	14.2	16.1	10.8	12.0	13.5	15.2
Operating cash flow after finance costs (€m)	30.1	30.1	30.1	30.1	30.1	30.6	30.6	30.6
Operating cash flow after finance costs as % NAV	5.2%	4.5%	4.0%	3.5%	5.2%	4.4%	3.9%	3.5%
Current share price	5.80							
Price/NAV	0.53	0.46	0.41	0.36	0.53	0.48	0.43	0.38

Source: Company data, Edison Investment Research

Based off our existing forecasts, but assuming a decline in yield from 7.61% to 7.0%, a price of €8 (38% higher than the current share price) would still represent a healthy 3.75% yield on the higher share price and a 33% discount to the adjusted 2017e EPRA NAV per share (including all warrant dilution) of 12.0c.

Dilutive impact of equity issuance

Until completed, we will not reflect the proposed placing of approximately 5.8m new shares (based on €35m raised at €6 per share) in our base forecasts. Moreover, in our discussion of GWI's pipeline of investment opportunities and longer-term funding requirements we suggest that further equity issuance may also be likely. Exhibits 10 and 11 show the impact on our current forecasts for EPRA NAV per share and cash flow after financing costs per share of both the currently proposed placing (€35m) and various larger amounts. It is very important to note that the estimates factor in nothing more than a saving on debt costs from the additional cash raised, and make no assumption of additional investment in potentially higher-yielding assets. The currently proposed placing would dilute our FY17 EPRA NAV per share forecast by c 4.4% and our forecast FY17 operating cash flow per share after interest costs by c 5.5%. If this is subsequently increased to €60m of equity raised at a similar price (ie an incremental €25m of equity raised), the dilution of our existing 2017e NAV per share increases to c 7.0% and cash flow per share to c 8.8%.

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

		Equity raise (€m)			
		35	60	80	100
Share price	5.50	-5.2%	-8.3%	-10.5%	-12.5%
	5.75	-4.8%	-7.6%	-9.7%	-11.5%
	6.00	-4.4%	-7.0%	-8.9%	-10.6%
	6.25	-4.0%	-6.4%	-8.2%	-9.7%
	6.50	-3.6%	-5.9%	-7.5%	-8.9%
	7.00	-3.0%	-4.9%	-6.2%	-7.4%

Source: Company data, Edison Investment Research

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

		Equity raise (€m)			
		35	60	80	100
Share price	5.50	-6.4%	-10.1%	-12.8%	-15.2%
	5.75	-5.9%	-9.5%	-12.0%	-14.2%
	6.00	-5.5%	-8.8%	-11.2%	-13.3%
	6.25	-5.1%	-8.3%	-10.5%	-12.5%
	6.50	-4.8%	-7.7%	-9.8%	-11.7%
	7.00	-4.2%	-6.7%	-8.6%	-10.3%

Source: Company data, Edison Investment Research