EDISON

GCP Student Living

FY18 results and placing

Strong FY18 progress and positive outlook

Real estate investment trusts

GCP Student Living (DIGS) saw strong growth in FY18 rental income, driven by an increasing number of operational beds, continuing full occupancy and good levels of rental growth. Growing dividends should be fully covered once current development projects are completed and let. Capital values also grew, with investor interest in the asset class remaining strong, contributing to 11.5% NAV total return for the FY18 year. The company continues to find attractive investment opportunities, maintaining its selective approach to investment, both by location and asset quality, and is seeking to raise up to £55m in a share pacing.

Year end	Rental income (£m)	Adjusted earnings* (£m)	Adjusted EPS* (p)	EPRA NAV/share (p)	DPS (p)
06/15	11.5	5.6	5.11	125.5	5.60
06/16	22.5	9.7	5.30	136.9	5.66
06/17	28.8	13.6	4.69	139.1	5.75
06/18	35.8	15.4	4.01	149.1	5.95

Note: *Adjusted for revaluation movements, gains/losses on disposal, licence fees on forward-funded developments and other exceptional items.

Rental and capital growth drive 11.5% return

FY18 rental income grew c 24% with good levels of profitability maintained. With positive supply-demand conditions in DIGS's chosen markets (94% in and around London), income benefited from continuing full occupancy, average rent growth of 4.1%, continuing acquisitions and completion of a first forward-funding development. DPS increased 3.5% to 5.95p, while NAV per share increased 7.2% to 149.12p. The EPRA NAV total return from the IPO (May 2013) to end June 2018 is now a compound 13.5% pa, and the share price total return 12.5%, both exceeding the 8–10% long-term total shareholder return target.

Growing operational portfolio to cover dividends

The portfolio is again fully occupied for the 2018/19 academic year with like-for-like rents growing by 3.5%. Letting of the recently completed Scape Bloomsbury refurbishment, and completion and letting of the two current forward-funding developments (one agreed post year-end), will also add to future earnings growth. The investment manager indicates the potential enhancement to adjusted EPS from these completions at an annualised 2.6p to 3.2p per share, enough to fully cover DPS. This is not affected by the announced placing (scheduled to close 20 September 2018) of up to 38.5m shares at 149.5p per share. Further attractive growth opportunities remain under review.

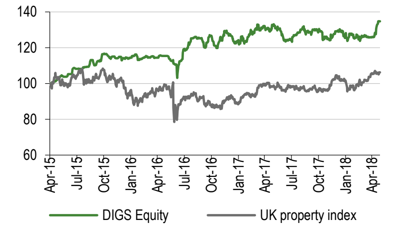
Positive fundamentals support growth and returns

The shares offer a 4.0% dividend yield and a growing DPS, supported by continuing strong fundamentals in DIGS's chosen markets, and which should be fully covered on a fully operational basis. Total share price and NAV returns since IPO are well above the 8–10% target, while the small 0.6% premium to the 30 June EPRA cum-income NAV is below the c 5% average since IPO.

12 September 2018

Price	**150.0p**
Market cap	**£578m**
NAV*	149.12p
Premium to NAV	0.6%
*EPRA NAV (including income) as at 30 June 2018	
Yield*	4.0%
*Based on Q418 DPS of 1.51p annualised	
Ordinary shares in issue	385.1m
Code	DIGS
Primary exchange	LSE
AIC sector	Property Specialist
Benchmark	N/A

DIGS vs UK property index (3 years)



52-week high/low	153.2p	136.4p
NAV high/low	146.9p	138.4p

Gearing

Loan to value*	26%

*As at 30 June 2018

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Edison profile page

GCP Student Living is a research client of Edison Investment Research Limited

Exhibit 1: GCP Student Living at a glance

Investment objective and fund background

GCP Student Living is a specialist UK real estate investment trust (REIT) investing in student residential assets, with a focus on London. The company seeks to provide shareholders with attractive total returns in the longer term, targeting 8–10% pa, through the payment of regular, sustainable, long-term dividends with the potential for modest capital appreciation.

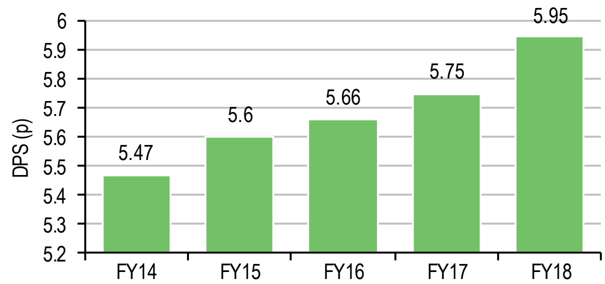
Recent developments

- 10 September 2018. Announced placing of up to 38.5m shares at 149.5p per share. Closes 30 September 2018.
- 6 September 2018: Annual results to 30 June 2018 - EPRA NAV 149.12p (cum-income) from 139.08p at 30 June 2017. Ex-income NAV 147.61p. Total DPS declared of 5.95p (+3.5%). Share price total return 5.7% and NAV total return 11.5%.
- 25 July 2018: Acquisition of Scape Brighton and new debt facility.

Forthcoming		Capital structure		Fund details	
AGM	November 2018	Ongoing charges	1.3% (excluding direct property costs)	Group	Gravis Capital Management
Interim results	March 2019	Loan to value	26% (June 2018)	Manager	Tom Ward and Nick Barker
Year end	June	Annual mgmt fee	1.0% of NAV	Address	24 Savile Row, London W1S 2ES
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	None		
Launch date	May 2013	Trust life	Indefinite	Phone	020 3405 8500
Continuation vote	November 2018	Loan facilities	£235m (fully drawn)	Website	www.graviscapital.com

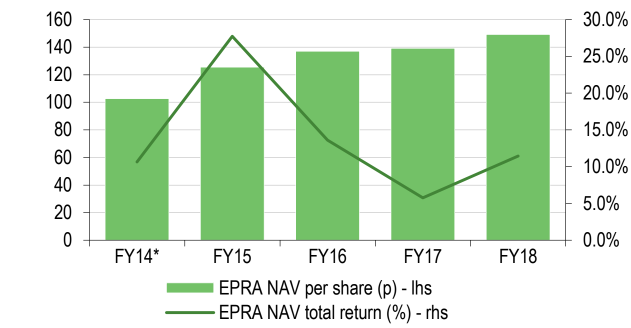
Dividend policy and history

DIGS pays dividends quarterly. A key objective is to provide regular, sustainable, long-term dividends. FY14 pro ratas the 6.10p in dividends declared for the accounting period 20 May 2013 to June 2014, as published by DIGS.

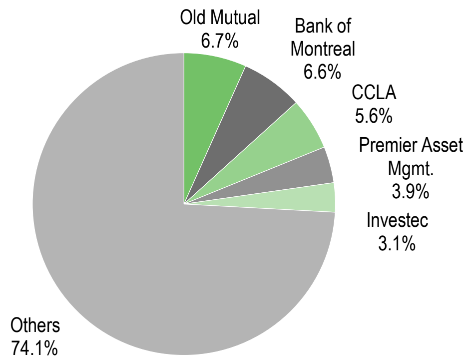


EPRA NAV per share and EPRA NAV total return history

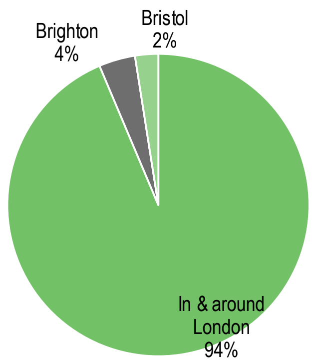
The company is targeting an 8–10% pa total return over the longer term. EPRA NAV TR has been a compound 13.5% pa since IPO (calculated with dividends reinvested).



Major shareholders (as at 4 September 2018). Source: Thomson Reuter



Geographic exposure by property value (as at 30 June 2018)



Portfolio summary (as at 30 June 2018)

Property	Location	Date of completion	Valuation (£m)	NIY*	No. of beds
Scape East	East London	2012	139.0	4.90%	588
Scape Wembley	North London	2017	90.4	5.25%	578
Scape Shoreditch	East London	2015	193.0	4.45%	541
Scape Bloomsbury*	Central London	2018	166.0	N/A	432
Scape Greenwich	East London	2014	55.4	4.80%	280
The Pad	Egham	Phase 1: 2012/phase2 : 2015	35.3	5.75%	220
Podium	Egham	2017	30.1	5.75%	178
Scape Surrey	Guildford	2015	25.2	5.50%	141
Circus Street**	Brighton	2019	30.5	N/A	450
Water Lane Apartments	Bristol	2015	19.5	5.75%	153
Total			**784.4**	**5.04%**	**3,561**

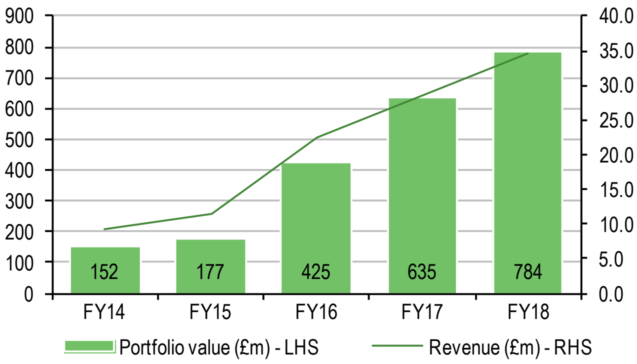
Source: GCP Student Property. Note: *NIY is net initial yield. *Scape Bloomsbury was under refurbishment at 30 June 2018 and completed post year end. **Circus Street is a forward-funded new development under construction or refurbishment as at 30 June 2018 and expected to complete in 2019 at a total cost of c £70m.

London-focused student accommodation

GCP Student Living (DIGS) was the first real estate investment trust (REIT) in the UK to focus on the specialist property asset class of student residential property. It was admitted to trading on the London Stock Exchange in May 2013, initially trading on the Specialist Fund segment of the Main Market, and transferring to the Premium segment in September 2016. The investment objective is to provide shareholders with attractive total returns in the longer term through the potential for modest capital appreciation and regular sustainable dividends with RPI-inflation linked characteristics.

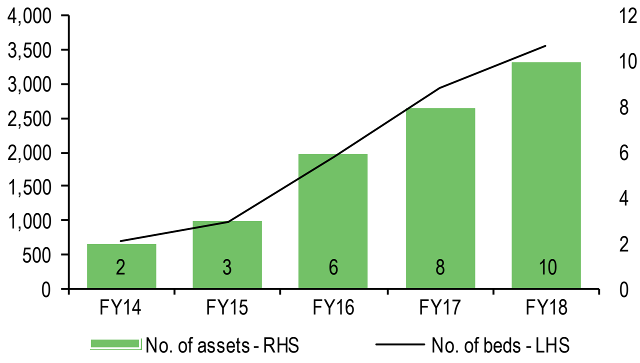
Gravis, the external investment manager, was established in 2008 and is privately owned by its directors and founding members. It currently manages £2.5bn in assets, including two other listed closed-end vehicles. Tom Ward and Nick Barker from Gravis have day-to-day responsibility for the provision of investment advice to DIGS. The primary asset manager is Scape Student Living, which is closely aligned with Gravis, the directors of which own 50% of Scape.

Exhibit 2: Portfolio value and revenues since IPO



Source: Company data

Exhibit 3: Number of assets and beds since IPO



Source: Company data

The student housing sector has attracted investor interest for its favourable risk-adjusted yields, which benefit from a positive supply-demand situation, good levels of rental growth and less exposure to the economic-led cycles that affect traditional commercial property sectors such as offices, industrial and retail property. As discussed at length in our initiation note, DIGS is differentiated by a focus on properties that are located primarily in or around London, or markets with similar supply-demand characteristics, where growing student numbers significantly outstrip the supply of student accommodation. London continues to see increasing numbers of international and post-graduate students, driving demand for purpose-built student accommodation (PBSA), while planning restrictions and competing demands limit supply. The investment manager targets high-specification, modern, purpose-built accommodation with proximity to a suitable higher education institution and/or a major transport hub. Such properties may be more likely to both appeal to students today and offer longevity of income potential.

At 30 June 2018, the portfolio comprised the 10 assets shown at the bottom of Exhibit 1 (2017: eight assets), providing c 3,600 beds (2017: c 3,000 beds), of which c 2,700 are operational and fully let for the 2017/18 academic year (c 1,900 operational and fully let in the 2016/17 academic year), with c 900 beds under refurbishment/development and expected to be completed and operational over the coming two academic years. The portfolio value was £784.4m (2017: £634.6m), 94% of which was located in and around London (2017: 96%), reflecting a net initial yield (NIY) of 5.04%.

FY18 results show good growth

DIGS's results for the year to 30 June 2018 (FY18) show strong income growth, driven by an increasing number of operational beds, continuing full occupancy and good levels of rental growth. The company continues to find attractive opportunities to grow the portfolio, while maintaining its selective approach to asset selection, both by location and asset quality. Given the positive outlook, the progressive dividend policy has been maintained, and although dividend cover has been reduced in the short term by equity issuance to fund portfolio growth, the investment manager believes it would be fully covered on a fully developed and let basis.

Exhibit 4: Financial results summary

£m	FY18	FY17	% change
Rental income	**35.8**	**28.8**	**24.2%**
Property operating expenses	(7.9)	(6.3)	26.5%
Gross profit	**27.8**	**22.5**	**23.6%**
Gross margin	77.8%	78.2%	
Administrative expenses	(7.4)	(6.1)	22.4%
Operating profit before gains on investment properties	**20.4**	**16.5**	**24.1%**
Operating margin	57.0%	57.1%	
Fair value gains on investment properties	47.6	11.9	
Operating profit	**68.0**	**28.3**	**140.1%**
Net finance expense	(6.9)	(4.8)	44.3%
PBT	**61.1**	**23.5**	**159.7%**
Tax charge	0.0	(0.0)	
Profit for the year	**61.1**	**23.5**	**160.1%**
Adjust for:			
Fair value gains on investment properties	(47.6)	(11.9)	
License fees on forward funded developments	1.5	1.4	
Exceptional items	0.4	0.6	
Adjusted earnings	**15.4**	**13.6**	**13.1%**
IFRS basic EPS (p)	15.89	8.08	96.6%
Group adjusted EPS (p)	4.01	4.69	-14.5%
DPS declared (p)	5.95	5.75	3.5%
IFRS & EPRA NAV per share (p)	149.12	139.08	7.2%
Investment property value	784.4	634.6	23.6%
Net asset value	574.2	467.0	23.0%
Net debt	205.8	164.9	24.8%
LTV	26.2%	26.0%	1.0%

Source: Company data, Edison Investment Research

Key financial highlights from the FY18 results

- Rental income increased by c 24%, including first-time contributions from Scape Wembley and the Podium, continued full occupancy, and an average 4.1% rent increase applied to the 2017/18 academic year, ahead of the national average (DIGS cites data from Cushman & Wakefield indicating a 2.9% increase).
- Profitability was maintained at a good level, with the gross margin at 77.8% (FY17: 78.2%), and the operating margin before revaluation gains at 57.0% (FY17: 57.1%). The ongoing charge ratio was 1.3%.
- Net finance costs increased broadly in line with average borrowing, with drawings utilised to grow the portfolio. Net LTV was little changed at 26.2%.
- Net fair value movements on investment properties were £47.6m (FY17: £11.9m), equivalent to 7.3% of the opening value (FY17: 2.8%), and were driven by rental growth at full occupancy and yield compression, including a c £12m post-completion gain on the valuation of Scape Wembley. The end-FY18 blended net initial yield was 5.04%.
- Including the revaluation gains, IFRS earnings more than doubled to £61.1m. Adjusted earnings, which excludes the valuation gain, adjusts for other one-off items, and includes licence fees on forward-funding developments, increased by 13.1% to £15.4m.
- The average number of shares outstanding increased by c 32% to 384.3m, reflecting share issuance to fund portfolio growth. As a result, adjusted EPS of 4.01p was lower during the year

(FY17: 4.69p) but, as discussed below, the investment manager estimates that the re-opening of Scape Bloomsbury, and completion and letting of the Circus St and Scape Brighton developments, has the potential to enhance adjusted EPS by an annualised 2.6p to 3.2p.

- Aggregate quarterly dividends declared increased by 3.5% to 5.95p, comprising three quarterly dividends of 1.48p and an increased Q4 dividend of 1.51p. The FY18 dividend was 67% covered by adjusted EPS, but taking account of the earnings potential on a fully operational and let basis, DIGS expects dividends paid to be fully covered by earnings.
- Benefiting from the revaluation gains, NAV per share increased by 7.2% to 149.12p. Including dividends paid during the period, NAV total return was 11.5%.
- Looking to the current year, DIGS says that the portfolio is again fully occupied for the 2018/19 academic year and that rental growth continues to be above inflation, with a like-for-like average increase of 3.5%. With refurbishment completed since end-FY18, Scape Bloomsbury will also contribute to earnings.

Funding supplemented by share placing

To support the ongoing growth of the investment portfolio, in July 2017 DIGS raised c £70m (gross) in an over-subscribed equity placing. Gearing (defined as gross borrowing as a percentage of gross assets) was 28% at end-FY18, well below the fund's 55% limit. More commonly used in the real estate sector, net loan to value or LTV (debt, net of £29.2m of cash resources, as a percentage of the property assets) was 26.2%, little changed on the year. Since end-FY18, DIGS has entered into a new £45m, three-year revolving credit facility with a margin of 1.85% over three-month Libor, supplementing its fully drawn £235m secured debt facilities at a blended fixed rate of 2.96%. DIGS indicates that the increased borrowing facilities, together with cash resources are sufficient to fund the remaining investment commitments at Scape Bloomsbury and Circus Street, as well as the cost of the land purchase for Scape Brighton. The announced placing (on 10 September 2018 and scheduled to close on 20 September 2018) of up to 38.5m shares, previously authorised by the AGM, at a price of 149.5p per share represents potential additional equity capital resources of c £55m which will be used primarily to fund the construction of Scape Brighton, due to complete during the first half of the FY20 financial year.

Fully operational earnings potential

DIGS remains focused on building a diversified portfolio of investments capable of providing sustainable long-term dividends. The refurbishment of Scape Bloomsbury has reduced near-term income, and portfolio growth through forward-funding the development of attractive assets that may otherwise be unavailable has a similar effect, although the impact on adjusted earnings is softened by licence fees payable on funds extended. Investment decisions have been made in the expectation that dividends will be covered on a fully developed and let basis and the investment manager has provided the illustrative explanatory data contained within Exhibit 5. To support the illustrations, it has been assumed that construction is completed on time and to budget and that the properties are fully let on terms in line with the investment manager's expectations and market conditions. Completion of Scape Bloomsbury, Circus St Brighton and Scape Brighton is expected to add between £16m and £17m to net rental income (£27.8m in FY18) on an annualised basis, with a potential enhancement to adjusted EPS (4.01p in FY18) of between 2.6p and 3.2p, depending on the mix of equity and debt capital used to fund the remaining capex. At end-FY18, the incremental capital requirement to fund the completions was c £135m and DIGS has illustrated the impact of fully debt funding the projects (3.2p enhancement) or the impact assuming a 70:30 equity debt mix of funding, similar to the current position (2.6p enhancement). The illustration shows adjusted EPS increasing above the FY18 5.95p DPS in both cases. As discussed below, the completion of these three assets should also have a positive effect on valuations and NAV. We estimate that the announced equity placing would position the actual funding mix broadly mid-way between the two outcomes illustrated by DIGS, assuming all additional funding were debt. However, we would not expect DIGS to decide on this for several months, given the gradual deployment of funds over the period of construction.

Exhibit 5: Illustrative effect of construction assets becoming operational

Funding mix	Equity 70%/debt 30%		Debt 100%	
	£m	EPS	£m	EPS
Adjusted earnings in year ended 30 June 2018	**15.4**	**4.01**	**15.4**	**4.01**
Add:				
Scape Bloomsbury	7.4	1.91	7.4	1.91
Circus St, Brighton	3.2	0.82	3.2	0.82
Scape Brighton	5.7	1.47	5.7	1.47
Funding cost to complete developments/refurbishments	(6.0)	(1.55)	(3.9)	(1.00)
Impact of construction assets becoming operational	**10.2**	**2.65**	**12.3**	**3.20**
Fully operational adjusted earnings	**25.6**	**6.66**	**27.7**	**7.21**

Source: Company data

Portfolio and operational update

During FY18**, Scape Wembley**, DIGS's first forward-funded development was completed and opened in September 2017. It was fully occupied for the 2017/18 academic year, providing 578 beds, and contributed a c £12m revaluation surplus. The two assets acquired during FY18 were **Podium** in Egham, and Circus Street, Brighton. Podium is a 178-bed newly developed operational asset, in the same locality as 220-bed The Pad, which was acquired through a conditional forward purchase agreement, first entered into in 2016. Circus St is DIGS's second forward-funded development, a 450-bed development situated in the heart of Brighton city centre. It remains on track for completion in September 2019, in time for the 2019/20 academic year. The other non-operational asset at end-FY18 was **Scape Bloomsbury**, in the heart of London WC1, where refurbishment has subsequently been completed, allowing the property to open, offering 432 beds for the 2018/19 academic year.

Not reflected in Exhibit 1 are the conditional forward purchase agreement entered into in October 2017 in relation to **Scape Canalside**, and the forward funding of **Scape Brighton**, agreed since year end. Scape Canalside is expected to be completed and then acquired by DIGS in time for the 2019/20 academic year, providing approximately 410 beds. The property is in the same locality as the group's existing c 590-bed Scape East asset, opposite Queen Mary University of London. Scape Brighton, the second DIGS asset in the city, will provide c 550 beds and extensive communal areas, with c 1,500 sq ft of retail space, on the primary campus of Brighton University. It is expected to be operational in September 2020, in time for the 2020/21 academic year.

London and beyond

DIGS is differentiated by its highly selective approach to the locations in which it invests, and the investment manager continues to review a number of investment opportunities that meet its criteria and which it believes to be attractive. The vast majority of the portfolio continues to be focused on assets in and around London. However, the investment manager has identified the student accommodation markets in cities such as Brighton, Bath, Bristol, Oxford and Cambridge as having similarly favourable supply/demand dynamics to London, with the potential to deliver long-term, sustainable rental growth and value. In practice, investment opportunities in Oxford and Cambridge are scarce, but DIGS is already invested in Bristol (Water Lane apartments) and now has two investments in Brighton, which like London has an undersupply of student accommodation perpetuated by restrictive planning guidelines. The University of Sussex (a top 20 UK university located in Brighton) and University of Brighton have c 36,000 students (c 7,500 international students), while Brighton is also home to two of the largest English language foundation course providers. There are 6,800 beds available to students in Brighton, of which only 240 are in direct-let, private PBSA. Other than the 1,000 beds that will be provided by Circus St and Scape Brighton, just 500 PBSA beds have been consented for development in Brighton.

Property valuation gains continuing

The blended net initial yield (NIY) was 5.04% at end-FY18, an increase from 5.00% at end-FY17, with the increase driven by asset mix. Valuation gains were recorded on each individual asset, and NIY compressed for all but The Pad.

Exhibit 6: Portfolio valuation and yield movement

	FY18		FY17	
£m	**Valuation**	**NIY**	**Valuation**	**NIY**
Scape East	139.0	4.90%	129.8	5.05%
Scape Wembley	90.4	5.25%	59.1	N/A
Scape Shoreditch	193.0	4.45%	177.7	4.75%
Scape Bloomsbury*	166.0	N/A	138.7	N/A
Scape Greenwich	55.5	4.80%	51.8	5.03%
The Pad	35.5	5.75%	34.9	5.75%
Podium	30.1	5.75%	N/A	N/A
Scape Surrey	25.2	5.50%	23.8	5.65%
Circus Street**	30.5	N/A	N/A	N/A
Water Lane Apartments	19.5	5.75%	18.8	5.75%
Portfolio total	**784.7**	**5.04%**	**634.6**	**5.00%**

Source: Company data. Note: *Scape Bloomsbury was under refurbishment at 30 June 2018 and completed post year end. **Circus Street is a forward-funded new development under construction or refurbishment as at 30 June 2018 and expected to complete in 2019 at a total cost of c £70m.

The completion and full letting of Scape Wembley during FY18 contributed a valuation uplift of c £12m, although its £90.4m year-end valuation continues to reflect an NIY of 5.25%, above the portfolio average. The investment manager expects the post year-end completion and letting of Scape Bloomsbury, a prime central London asset, to also have a positive valuation impact of between £8m and £12m.

The continuing attraction to investors in PBSA assets, particularly London-based assets, is evident from recent market transactions, and may indicate scope for further portfolio yield tightening. The investment manager notes the impact of recent transactions involving the London-focused Pure Student Living and Chapter portfolios, with an estimated aggregate value of £2.4bn, in supporting yield compression across the London market. It was reported in the media that the £870m sale of the Pure Student Living portfolio reflects a yield of just above 4%, and the investment manager believes that this was consistent with the yield on the partial sale of the Chapter portfolio of London assets. It is a common for a premium to be paid for assets acquired on a portfolio basis compared with standalone property valuations. This makes a direct read-across to the standalone property valuations that comprise the DIGS portfolio value difficult, although the positive implications of this continuing investor interest are clear. We estimate that a 50bp tightening in the blended DIGS portfolio yield would increase NAV per share by c 22p.

Student demand remains positive

With demand for higher education remaining strong, there continues to be an undersupply of purpose-built student accommodation nationally, although some regional pockets of over-supply have emerged. For London and a number of other core markets with similar demand-supply characteristics, the position of undersupply remains very clear. For London in particular, increasing global demand for the world-class educational facilities that it offers, combined with a significant undersupply and substantial obstacles to new development, represents an attractive environment for investors.

The differentiating features of the London market can be summarised as:

- It is home to more than 300,000 full-time students, more than any other city in the UK.

- Four of the top 50 universities in the world are in London, as are five of the 24 Russell Group universities, widely perceived as representing some of the best universities in the country.
- As a result of the high standard of education available, and the wider appeal of London as a place in which to live, a quarter of all international students studying in the UK are based there.
- London universities are only able to supply accommodation to c 30% of their first year and international students.

UCAS data for applications to UK universities as at 30 June 2018 (for the 2018/19 academic year) stood at c 637k and, although down 2% on the same point in 2017, this will have no discernible impact on student numbers, with c 1.3 applicants for each student place. Within total applications, demand for international students has continued to grow. EU student applications are up 2%, and other international students up 6%. Helping to counter Brexit uncertainties, EU students entering in the 2018/19 academic year are guaranteed the same fee rates as UK students, as well as access to student finance for the duration of the course. The decline in UK-domiciled applicants seems largely driven by demographics, although the long-term decline in the number of UK 18- to 20-year-olds should begin to reverse from 2020, while the desire to go to university, measured by participation rates, remains strong with more UK 18 year olds going to university than ever before.

Valuation and performance

Performance ahead of 8–10% target

In the period from IPO (20 May 2013) to the last published quarterly NAV at 30 June 2018 (end-FY18), DIGS has generated an EPRA NAV total return (dividends reinvested) of 91.2% on the opening NAV per share (after issue costs) of 97p, or an annualised compound return of 13.5% pa. Over the same period, the share price total return (dividends reinvested) was an aggregate 82.3% on the IPO price of 100p, or an annualised compound return of 12.5% pa. The share price has risen since 30 June 2018, taking the aggregate return to 87.9% or 12.6% annualised (as at 10 September 2018.

Both the NAV and share price total return are well ahead of the 8–10% target for long-term shareholder returns set by DIGS at IPO, including growing dividends per share and modest long-term capital appreciation.

Exhibit 7: Returns since IPO (at 100p per share) to 30 June 2018

	One year	Three years	Five years	Since IPO
DIGS share price total return*	5.7	8.7	11.6	12.5
DIGS NAV total return**	11.6	10.4	13.8	13.5
All-UK property index total return	9.3	2.6	9.9	7.7
FTSE All-Share total return	9.0	9.6	8.8	7.2
Benchmark UK 10yr bond total return	1.3	4.7	5.0	3.9

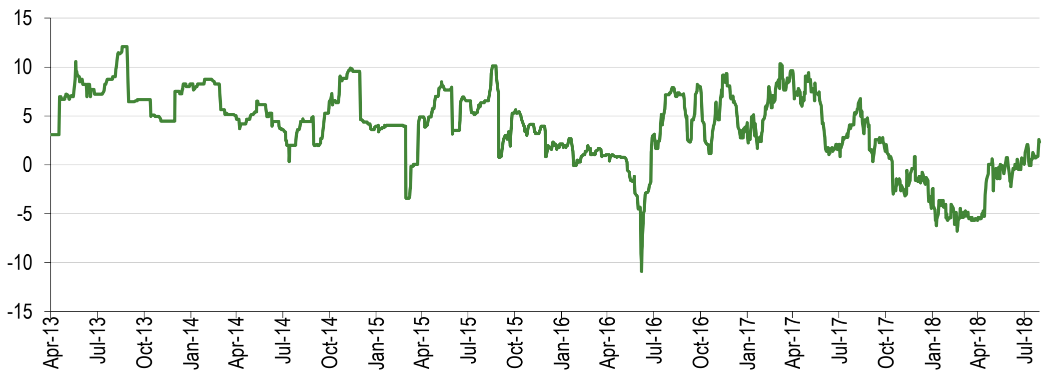
Source: Thomson Datastream, Edison Investment Research. Note: Data to 30 June 2018. Note: *Share price return since IPO based on IPO price of 100p. **NAV total return since IPO based on opening NAV, after issue costs, of 97p.

The DIGS NAV total return to 30 June 2018 is ahead of the broad UK commercial property sector, the FTSE All-Share Index, and UK gilt returns over one, three and five years, and since inception.

P/NAV below historical average

For much of the period since IPO, DIGS has traded at a premium to NAV (including income), of up to a peak of 12% (Exhibit 7). The main exception to this was in the aftermath of the mid-2016 EU referendum result, but also during the 12 months to March 2018 there was a steady de-rating, to a c 7% discount at the low point. The shares have since moved higher to trade at a modest premium of 0.6%, but still remain below the average since IPO of c 5%.

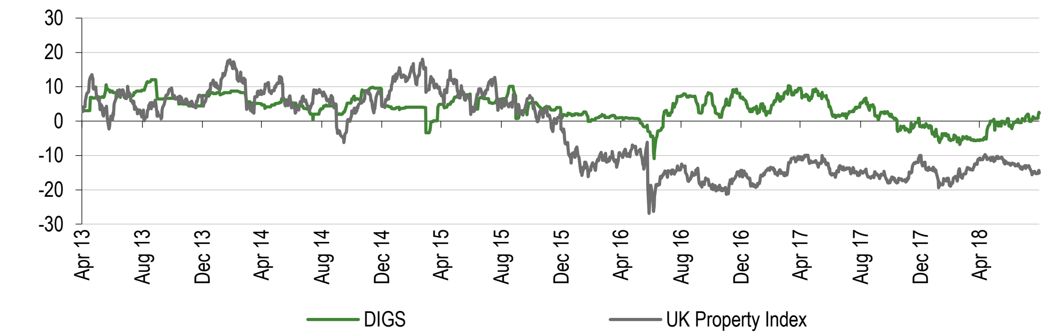
Exhibit 8: Share price premium/discount to NAV (including income) since IPO



Source: Thomson Datastream

Over the same period the broad UK-listed property sector has shown a more marked reduction in P/NAV, with valuations failing to keep pace with NAV growth. The effect has been more noticeable for those companies in the mainstream commercial property segment that are more dependent on asset management/development initiatives to drive capital appreciation, and generally less so for income-focused companies, which is how we would describe DIGS.

Exhibit 9: DIGS premium/discount to NAV compared with the UK property sector (%)



Source: Bloomberg, Thomson Reuters

Peer comparison suggests further potential

In Exhibit 9, we focus on the three UK-listed student accommodation companies, DIGS, Unite and Empiric, showing summary valuation and share price performance data. In terms of share price performance, and unlike the broader UK-listed property sector and FTSE All-Share Index, both DIGS and Unite are trading very close to 12-month highs, and although the Empiric share price is still some way below the 12-month high, the shares have recovered from the low point following its internally driven trading problems in 2017 and reduced dividend guidance. Investor interest in the student accommodation subsector remains positive.

DIGS offers a higher dividend yield compared with Unite, the largest of the three, yet it trades on a lower P/NAV and its share price rise over the past 12 months has been less. This suggests further potential for the DIGS share price to appreciate, supported by the continuing strong fundamentals in its target areas of the market, and as additional refurbishment/development assets come on stream to support earnings, cash flow, and dividend cover.

Exhibit 10: Student accommodation valuations and performance

	Price (p)	Market cap (£m)	P/NAV (x)	Yield (%)	Share price performance			
					One month	Three months	12 months	From 12-month high
GCP Student Liv.	150	578	1.01	4.0	1%	2%	1%	-2%
Unite	887	2336	1.17	3.2	1%	3%	29%	-1%
Empiric	96	578	0.91	5.2	2%	10%	-16%	-16%
Median			**1.01**	**4.0**	**1%**	**3%**	**1%**	**-2%**
UK property index	1,781			4.1	-4%	-6%	-1%	-7%
FTSE All-Share Index	4,106			4.2	-5%	-6%	-1%	-7%

Source: Company data, Edison Investment Research, Bloomberg data as at 11 September 2018

Exhibit 11: Financial summary

Year ending 30 June (£000's)	2014	2015	2016	2017	2018
INCOME STATEMENT					
Rental income	9,132	11,505	22,482	28,806	35,790
Property operating expenses	(1,664)	(2,529)	(4,600)	(6,281)	(7,946)
Gross profit	7,468	8,976	17,882	22,525	27,844
Administrative expenses	(2,357)	(2,001)	(5,712)	(6,072)	(7,434)
Operating profit before gains on investment properties	5,111	6,975	12,170	16,453	20,410
Fair value gains on investment properties	5,010	25,660	27,156	11,855	47,565
Operating profit	10,121	32,635	39,326	28,308	67,975
Net finance expense - recurring	(2,412)	(1,336)	(3,366)	(4,794)	(6,917)
Non-recurring finance expense	0	0	(7,635)	0	0
PBT	7,709	31,299	28,325	23,514	61,058
Tax charge	0	(18)	3	(40)	0
Profit for the year	7,709	31,281	28,328	23,474	61,058
Adjust for:					
Fair value gains/(losses) on investment property	(5,010)	(25,660)	(27,156)	(11,855)	(47,565)
Fair value movement on financial derivative & close out fees	599	0	0	0	0
EPRA earnings	3,298	5,621	1,172	11,619	13,493
License fees on forward funded developments	0	0	0	1,421	1,490
Exceptional finance and other costs	0	0	8,519	394	427
Other	0	0	0	189	0
Adjusted earnings	3,298	5,621	9,691	13,623	15,410
Average number of shares (m)	73.4	109.9	183.0	290.5	384.3
IFRS EPS (p)	10.50	28.46	15.48	8.08	15.89
EPRA EPS (p)	4.49	5.11	0.64	4.00	3.51
Adjusted EPS (p)	4.49	5.11	5.30	4.69	4.01
DPS declared (p)	5.47	5.60	5.66	5.75	5.95
BALANCE SHEET					
Investment property	151,560	177,220	424,787	634,640	784,424
Other non-current assets	956	308	815	308	2,956
Total non-current assets	152,516	177,528	425,602	634,948	787,380
Cash & cash equivalents	3,629	106,292	66,337	55,110	29,213
Other current assets	1,362	18,683	6,867	7,517	9,005
Total current assets	4,991	124,975	73,204	62,627	38,218
Interest bearing loans & borrowings	(39,456)	(39,569)	(128,174)	(217,469)	(232,771)
Other non-current liabilities	(956)	(522)	(815)	(308)	(308)
Total non-current liabilities	(40,412)	(40,091)	(128,989)	(217,777)	(233,079)
Financial liabilities	0	(117,422)	0	0	0
Other current liabilities	(4,240)	(7,261)	(11,349)	(12,804)	(18,309)
Total current liabilities	(4,240)	(124,683)	(11,349)	(12,804)	(18,309)
Net assets	112,855	137,729	358,468	466,994	574,210
EPRA adjustments	(47)	214	0	0	0
EPRA net assets	112,808	137,943	358,468	466,994	574,210
Period end number of shares (m)	109.9	109.9	261.8	335.8	385.1
IFRS NAV per share (p)	102.7	125.3	136.9	139.1	149.1
EPRA NAV per share (p)	102.6	125.5	136.9	139.1	149.1
CASH FLOW					
Net cash flow generated from other activities	5,943	6,356	4,171	14,168	22,168
Net cash used in investing activities	(87,038)	0	(210,561)	(195,469)	(102,209)
Net cash flow generated from financing activity	84,724	96,307	166,435	170,074	54,144
Change in cash	3,629	102,663	(39,955)	(11,227)	(25,897)
Opening cash	0	3,629	106,292	66,337	55,110
Closing cash	3,629	106,292	66,337	55,110	29,213
Debt as per balance sheet	(39,456)	(156,991)	(128,174)	(217,469)	(232,771)
Unamortised loan arrangement fees	(544)	(431)	(1,826)	(2,531)	(2,229)
Drawn debt	(40,000)	(157,422)	(130,000)	(220,000)	(235,000)
Net debt	(36,371)	(51,130)	(63,663)	(164,890)	(205,787)
Net LTV	24.0%	28.9%	15.0%	26.0%	26.2%

Source: Company data, Edison Investment Research

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