EDISON

GCP Student Living

H119 results

Strong H119 progress and positive outlook

Real estate investment trusts

Strong growth continued at GCP Student Living (DIGS) in H119. Rental income benefited from development/refurbishment completions, above inflation rental growth and continued full occupancy. Profitability showed the benefit of scale economies, with the operating margin increasing. Dividend cover increased strongly to 81%, well on track for full cover on a fully developed and let basis. The existing portfolio is performing well (H119 NAV total return of 7.9%), developments are on track to deliver further income growth, and the company continues to identify attractive opportunities for further growth.

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.

7.9% H119 NAV total return

H119 rental income grew c 21%, including a full period contribution from Scape Wembley (opened in September 2017), a three-month contribution from Scape Bloomsbury (opened in September 2018), above inflation rental growth of 3.5%, and full occupancy. The operating margin increased to c 59% from c 57% in H118, adjusted earnings grew 35% to £9.9m, and adjusted EPS by 30% to 2.49p. H1 DPS increased 3.4% y-o-y to 3.06p. The portfolio valuation benefited from rental growth, operational progress and a further tightening of market yields. NAV per share increased to 157.93p from 149.12p at end-FY18.

Strong student and investor demand in London

Positively for DIGS, with 92% of its portfolio in and around London, international student applications are up 9.0% compared with last year. Despite Brexit, EU applications also show slight growth. Government plans to boost international student numbers and income are also a positive. DIGS's bookings are ahead of the same time last year. In the investment market, recent transactions indicate continuing strong investor interest in London assets in particular. As well as highlighting the attractiveness of the DIGS existing portfolio, it suggests potential for further valuation gains. With London planning policy reinforcing a tight supply situation, DIGS will soon decide on whether to exercise its option agreement with Scape Student Living to acquire an additional attractive new-build asset adjacent to Queen Mary University of London and Scape East.

Positive fundamentals support growth and returns

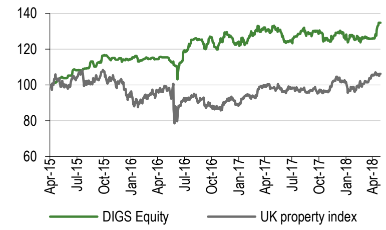
Growing dividends are supported by continuing strong fundamentals in DIGS's chosen markets, and should be fully covered on a fully operational basis. The shares trade at a small discount to NAV, despite share price and NAV returns since IPO continuing to be well above the 8–10% target, and good potential for further income and capital growth.

26 March 2019

Price	**154.0p**
Market cap	**£632m**

NAV*	157.93p
Premium/(discount) to NAV	(2.5%)
*EPRA NAV (including income) as at 31 Dec. 2018	
Yield*	4.0%
*Based on Q219 DPS of 1.53p annualised of 6.12p	
Ordinary shares in issue	410.6m
Code	DIGS
Primary exchange	LSE
AIC sector	Property Specialist
Benchmark	N/A

DIGS vs UK property index (3 years)



52-week high/low	156.2p	138.4p
NAV high/low	146.9p	138.4p

Gearing

Loan to value*	26%

*As at 31 December 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.

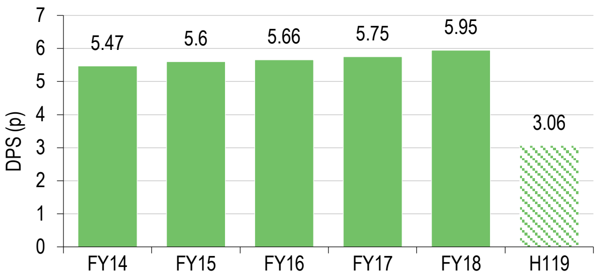
Recent developments

- 20 March 2019. Interim results to 31 December 2018 – EPRA NAV 157.93p (cum-income) from 149.12p at 30 June 2018. Total DPS declared in period 3.06p (H118: 2.96p). Six-month share price total return 3.0% and NAV total return 7.9%.
- 12 December 2018. New £55m debt facility taking total to £335m.
- 21 September 2018. Close of share placing. 25.5m new shares issued at 149.5p to raise £38.1m gross.

Forthcoming		Capital structure		Fund details	
AGM	November 2019	Ongoing charges	1.27% (excluding direct property costs)	Group	Gravis Capital Management
FY19 results	Sep 2019	Loan to value	26% (Dec 2018)	Manager	Nick Barker
Year end	June	Annual mgmt fee	1.0% of NAV	Address	24 Savile Row,
Dividend paid	Mar, Jun, Sep, Dec	Performance fee	None		London W1S 2ES
Launch date	May 2013	Trust life	Indefinite	Phone	020 3405 8500
Continuation vote	November 2021	Loan facilities	£335m (£235m drawn)	Website	www.gcpstudent.com

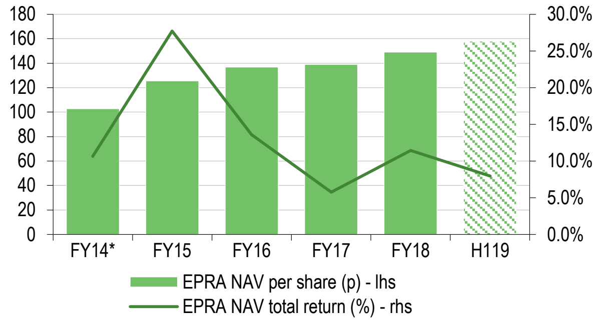
Dividend policy and history

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

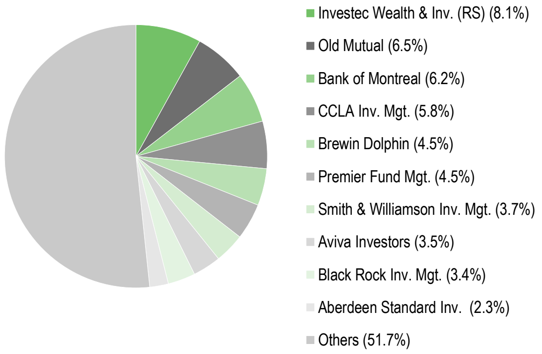


EPRA NAV per share and EPRA NAV total return history

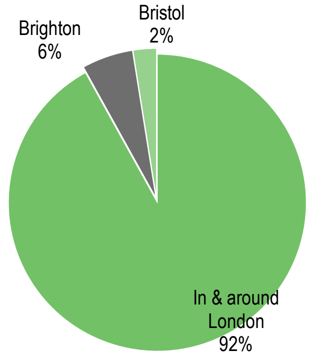
The company is targeting an 8–10% pa total return over the longer term. EPRA NAV TR has been a compound 13.8% pa since IPO (calculated with dividends reinvested).



Major shareholders



Geographic exposure by property value (as at 31 December 2018)



Portfolio summary (as at 31 December 2018)

Property	Location	Date of completion	Valuation (£m)	NIY*	No. of beds
Scape East	East London	2012	149.0	4.75%	588
Scape Wembley	North London	2017	95.0	4.90%	578
Scape Shoreditch	East London	2015	200.8	4.15%	541
Scape Bloomsbury	Central London	2018	180.9	4.25%	432
Scape Greenwich	East London	2014	56.2	4.83%	280
Podium	Egham	2017	30.8	5.65%	178
The Pad	Egham	Phase 1: 2012/Phase2: 2015	33.9	5.80%	220
Scape Surrey	Guildford	2015	27.3	5.15%	141
Circus Street**	Brighton	Expected 2019	46.5	N/A	450
Water Lane Apartments	Bristol	2015	21.1	5.40%	153
Scape Brighton***	Brighton	Expected 2020			555
Total			**841.5**	**4.74%**	**4,116**

Source: GCP Student Property. Note: *NIY is net initial yield. **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. ***Scape Brighton is a forward funding agreement that is expected to complete in 2020.

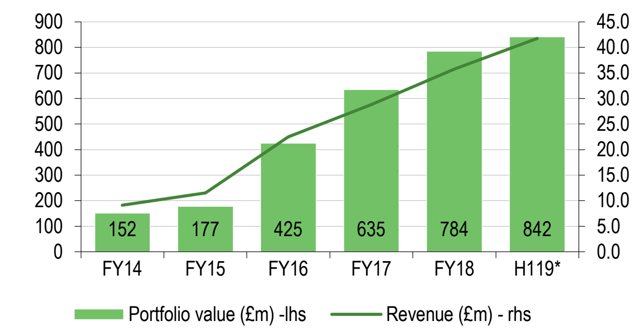
London-focused student accommodation

GCP Student Living (DIGS) is a specialist UK real estate investment trust (REIT), investing in student residential assets, and differentiated by a focus on assets in and around London. The shares have been listed since May 2013 and the company has a premium listing on the FCA's Official List, trading on the Premium segment of the Main Market of the London Stock Exchange. 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.

The student housing sector continues to attract investor interest for its favourable risk-adjusted yields, 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. DIGS is focused on assets in or around London in order to benefit from a structurally positive demand-supply balance, which is no longer the case in all regions of the UK. The London market 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. Geographically, DIGS will also invest in other markets that offer similar market dynamics (eg Brighton). Within these markets, 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, in the chosen locations, may be more likely to both appeal to students today and offer longevity of income potential to support long-term value creation, even if the current yields may be lower.

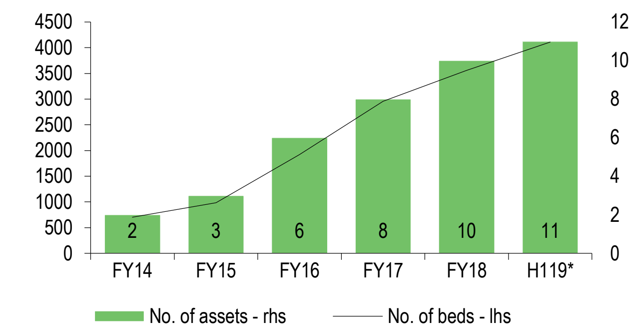
At 31 December 2018, the portfolio comprised the 11 assets shown at the bottom of Exhibit 1, providing c 4,100 beds, of which c 3,100 are operational and fully let for the 2018/19 academic year. The portfolio value was £841.5m, reflecting a net initial yield (NIY) of 4.74%.

Exhibit 2: Portfolio value and revenues since IPO



Source: Company data. Note: *Revenue shows H119 annualised.

Exhibit 3: Number of assets and beds since IPO



Source: Company data

Gravis, the external investment manager, was established in 2008 and is privately owned by its directors and founding members. It currently manages £2.6bn in assets, including two other listed closed-end vehicles. Nick Barker from Gravis is the fund manager with 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.

Strong income growth and increased dividend cover

Interim results for the six months ended 31 December 2018 (H119) show the current portfolio performing well and continuing to grow. Rental income grew strongly, benefiting from development/refurbishment completions, above inflation rental growth and continued full occupancy. Profitability is additionally showing the benefit of scale economies. Dividends have been set, and investment decisions made, based on the investment manager's expectation that they will be covered by earnings on a fully developed and let basis. With dividend cover increasing to 81%, the H119 results provide evidence that the company is well on track to achieve this. EPRA (and IFRS) NAV per share increased by 5.9% during H119 to 157.93p. Including dividends paid during the period, the six-month NAV total return was 7.9%.

Exhibit 4: Interim results summary

£m unless stated otherwise	H119	H118	H119/H118	FY18
Rental income	20.9	17.3	21%	35.8
Property operating expenses	(4.5)	(3.9)	17%	(7.9)
Gross profit	**16.4**	**13.5**	**22%**	**27.8**
Gross margin	78.4%	77.7%		77.8%
Administrative expenses	(4.0)	(3.6)	10%	(7.4)
Operating profit before gains on investment properties	**12.4**	**9.8**	**26%**	**20.4**
Operating margin	59.4%	56.8%		57.0%
Fair value gains on investment properties	39.9	32.4	23%	47.6
Operating profit	**52.3**	**42.2**	**24%**	**68.0**
Net finance expense	(3.4)	(3.4)	2%	(6.9)
Pre and post-tax profit for the year	**48.9**	**38.8**	**26%**	**61.1**
Adjust for:				
Exceptional items	0.0	0.0		0.4
Fair value gains on investment properties	(39.9)	(32.4)		(47.6)
License fees on forward funded developments	1.0	0.9		1.5
Group adjusted earnings	**9.9**	**7.4**	**35%**	**15.4**
Basic IFRS EPS (p)	12.3	10.1		15.9
Adjusted EPS (p)	2.49	1.92	30%	4.01
DPS (p)	3.06	2.96	3%	5.95
Dividend cover (x)	0.81	0.65		0.67
EPRA NAV per share (p)	157.93	146.31		149.12
EPRA NAV total return	7.9%	7.3%		11.5%
Investment property value	841.5	739.6		784.4
Net debt	(215.2)	(173.1)		(205.8)
LTV	25.7%	23.4%		26.2%

Source: Company data

Key financial highlights from the H119 results

- Rental income increased by c 21% compared with H118, to £20.9m, and gross profit by 22% to £16.4m, with the gross margin increasing slightly to 78.4%. The drivers of rental income growth included a full period contribution from Scape Wembley (which opened for the 2017/18 academic year), a first time (c three-month) contribution from Scape Bloomsbury, which opened for the 2018/19 academic year following refurbishment, and average 3.5% rental growth across the portfolio. The portfolio was again fully occupied for the 2018/19 academic year.
- The scale benefits of the growing portfolio can be seen in both increased profits and enhanced profitability. Administrative costs, which comprise fund running costs, including the investment manager's fee and other third-party service provider costs, grew by 10%. This was well below the growth in income, and as a result operating profit before property valuation movements increased by 26% to £12.4m. The operating margin was 59.4% compared with 56.8% in H118 and 57% for the full FY18 year.
- On a net basis, finance costs were little changed, with H119 property investment funded primarily from cash balances, including the £37.5m net proceeds from the September 2018 share placing. To part-fund future investments and existing fund commitments, debt facilities were increased by £100m but as yet remain undrawn.
- The value of the investment portfolio has increased to £841.5m, including investment spending and a net fair value movement of £39.9m, equivalent to 5.1% of the opening value. The gains were driven by both rental growth, the completion and opening of Scape Bloomsbury and yield compression, with the latter given evidential support by a number of important market

transactions in and around London. The end-H119 blended net initial yield on the DIGS portfolio was 4.74% compared with 5.04% at end-FY18.

- Including the revaluation gains, IFRS earnings increased by 26% compared with H118, to £48.9m. Adjusted earnings, which excludes the valuation gain, adjusts for other one-off items, and includes licence fees on forward-funding developments, increased by 35% to £9.9m. Adjusted EPS increased 30% to 2.49p.
- Dividends declared during H119 were 3.06p, an increase of 3.4% from the 2.96p declared in H118 and also ahead of the 2.99p declared in H218. As the company had previously guided, the opening of Scape Bloomsbury has contributed to a strong increase in coverage of dividends by adjusted earnings. It was 81% in H119 compared with 70% in H218 and 67% for FY18 as a whole. On a fully operational and let basis, DIGS continues to expect dividends paid to be fully covered by earnings.
- DIGS says that bookings for the 2019/20 academic year are ahead of the level at the same time last year, and that repeat bookings have continued to increase over time.

Significant recent operational developments

- **Scape Bloomsbury**, providing 432 beds in the heart of central London, was completed ahead of schedule, in time for the 2018/19 academic year. DIGS had initially expected to open the first five floors in September and the top three floors in December, but was able to fully open in September with higher than budgeted overall initial occupancy.
- Construction work on the c 450-bed, forward-funded office project at **Circus Street** in central Brighton is proceeding in line with expectations towards planned completion in time for the 2019/20 academic year. Unlike the majority of DIGS assets, Circus Street is let on a 21-year, RPI-linked lease to Kaplan at an initial rent of £2.9m. The development includes a standalone, speculatively developed, integrated Grade A office building, which is generating strong interest from potential occupiers and investors given a tight Brighton market. It will be retained or sold, and the capital recycled, when completed and stabilised, depending on the nature of the tenant. Licencing fee income, at a rate of 5.5% of the funding extended, is recognised in adjusted income.

  In July 2018 DIGS entered into a conditional contract to acquire and forward-fund **Scape Brighton**, its second asset in the city, situated on the University of Brighton's main campus. Scape Brighton is expected to provide 555 beds and extensive communal areas, with c 1,500 sq ft of retail space, on the primary campus of Brighton University. Construction work began in November 2018 and the asset is expected to be operational in September 2020, in time for the 2020/21 academic year. DIGS provided approximately £24m of forward funding in H119, which is initially accounted for as a loan receivable asset on the balance sheet.

  Under the contractual arrangement with Scape Student Living that has allowed DIGS to acquire several attractive, newly developed assets since IPO, the company has an option to acquire **Scape Canalside**, a 412-bed, new-build asset located adjacent to Queen Mary University of London, in the same locality as the group's existing c 590-bed Scape East asset. Scape Canalside is expected to reach practical completion by July 2019 and DIGS must soon decide whether to exercise its option or not. The asset is highly attractive to DIGS and the decision substantially rests on it having access to suitable funding. The design of Scape Canalside and its market positioning are complementary to the existing Scape East asset and similarly it benefits from close proximity to Queen Mary University, a strong Russell Group higher education institution. The increasingly stringent planning environment in London also increases the attractiveness of the option, providing access to a further significant, high-quality, purpose-built asset. Recent transaction activity (see below) suggests an increasing scarcity value for schemes that have already received planning approval.

Increased, more flexible funding in place

At the end of H119, DIGS had a cash balance of £19.8m with drawn debt of £235m, at a blended fixed rate of 2.96%, and a remaining term of seven years. The loan to value ratio was 25.7%. DIGS's outstanding commitments include the remaining construction work at Circus Street, Brighton, the forward-funding commitment to Scape Brighton, and the forward purchase agreement for Scape Canalside. To provide the funding for this additional portfolio growth, DIGS has in recent months increased its equity and debt capital resources:

- In September 2018 DIGS completed the placing of 25.5m new shares at a price of 149.50p, raising £38.1m of gross new equity capital (£37.5m net).
- In July 2018 it agreed a £45m, three-year re-drawable credit facility (RCF) with Wells Fargo at a margin of 1.85% pa above three-month Libor. The RCF provides more flexible debt finance than fixed long-term debt and will be available for use in funding the completion of Circus Street, Brighton, and initial construction costs at Scape Brighton, as well as general corporate purposes.
- In December 2018, DIGS added a £55m development loan facility, also with Wells Fargo, intended to part-fund the construction of Scape Brighton. The facility has a margin of 3.1% pa above three-month Libor during the construction phase, falling to 2.0% pa above Libor once the asset has been completed and stabilised.

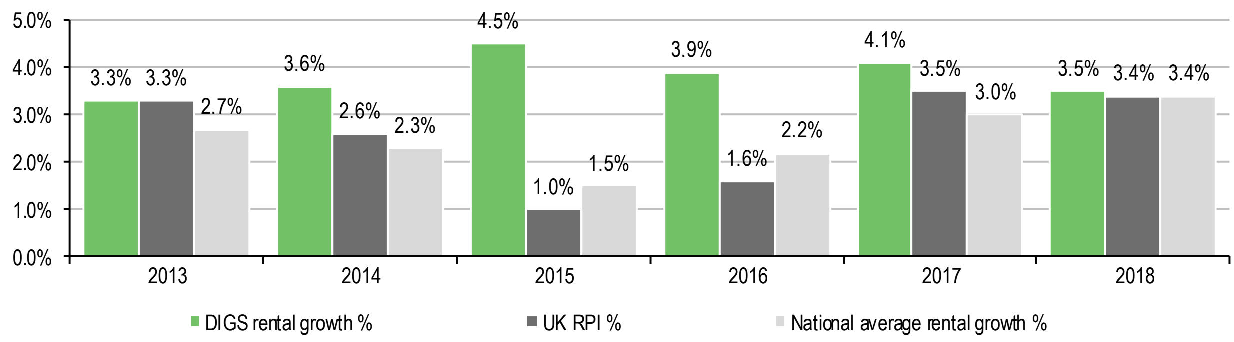
In aggregate, the new debt facilities with Wells Fargo provide DIGS with £100m of flexible floating rate debt. This will avoid the need for DIGS to hold excess cash ahead of development funding, and extends the positive spread between the licence fees on development forward-funding and the cost of the debt, which should further support increasing dividend cover.

Positive market developments

Continuing above-inflation rental growth

In terms of income returns, DIGS targets regular sustainable dividends with RPI inflation-linked characteristics. A relatively small proportion of rental income is contractually directly linked to RPI (Circus Street at completion will be an exception), and so the inflation-linked characteristic relies on the selection of suitable assets and locations with favourable demand-supply dynamics that have the potential to deliver continuing rental growth. Exhibit 5 shows that DIGS has been able to sustain rental growth in excess of both RPI and the market over several years.

Exhibit 5: Rental growth



Source: DIGS. Note: DIGS sources national average from CBRE. Other provider estimates differ, with Knight Frank estimating 2.55% in 2017/18 and 2.26% in 2018/19.

London remains differentiated

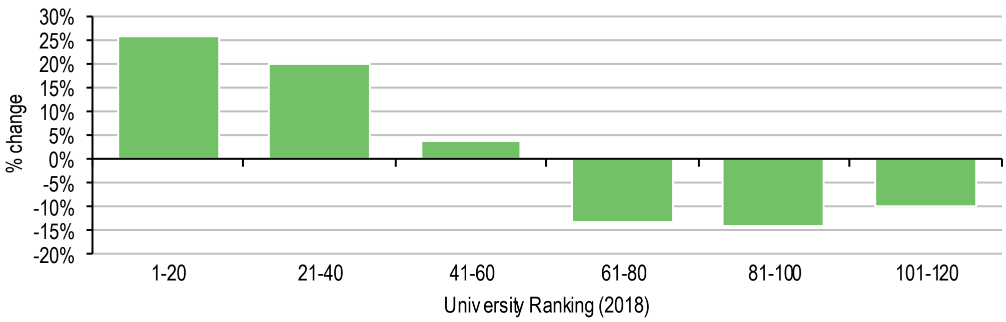
From a student demand-supply perspective, the differentiating features of the London market can be summarised as:

- 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 of the c 460,000 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.

Two significant trends that favour DIGS's London area focus are for the strongest universities to attract an increasing share of applicants, and the continuing strength of international student applications.

Since the UK government raised tuition fees to a maximum of £9,000 pa in 2012 (and subsequently increased to £9,250), which was followed by a removal of the cap on undergraduate student numbers in 2015, there is clear evidence that many students are influenced in their choice of university by its cost and the expected future benefit. This has enabled the top universities to grow in size while maintaining their academic requirements. Given its concentration of top universities (home to six of the top 40), London has benefited.

Exhibit 6: Change in student applications by ranking of UK universities (2012-2018)



Source: DIGS, UCAS, Complete University Guide

Data from the Universities and Colleges Admissions Service (UCAS) show that, at the important 15 January 2019 application deadline (for the 2019/20 academic year), international (excluding EU) student applications were ahead by 9.0% compared with 2018/19 applications at the same time last year, with Chinese applications particularly strong. EU applications were also up, but by a smaller 0.9%. Helping to counter Brexit uncertainties, EU students that entered in the previous 2018/19 academic year were guaranteed the same fee rates as UK students, as well as access to student finance for the duration of the course. Including UK applications (down 0.7%), total applications were up by 0.4%. International (ex-EU) students currently account for 63% of the DIGS total, with EU students a further 14% and UK students the balance (23%). International students are often less price-sensitive than domestic students when it comes to choosing suitable accommodation.

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, has continued to increase.

The UK government has recently published a new Education Strategy in which it outlines plans to increase international student numbers by more than 30% and their income contribution to the economy from an estimated c £20m currently to £35bn by 2030. There is no limit on the number of international students that can study in the UK, and among the measures that are being suggested to achieve the new targets are proposals to extend the post-study period during which students may remain in the UK and potential measures to support them into UK employment.

London investment transactions supporting yields

The blended net initial yield (NIY) on the DIGS portfolio continued to tighten during H119, from 5.04% at end-FY18 to 4.74%, broadly spread across the portfolio.

The continuing attraction to investors in purpose-built student accommodation assets (PBSA), particularly London-based assets, is evident from several recent market transactions, and may indicate scope for further portfolio yield tightening. We have previously commented on the August 2018 acquisition of a £350m stake in the £1.1bn, 5,100-bed Chapter portfolio, alongside existing investor Greystar Real Estate Partners, by Allianz and PSP Investments. Gravis estimates the transaction to have been at an NIY of c 4.0%. In March 2019, the same group of investors, through the Chapter portfolio, agreed to acquire an additional prime London student housing asset from Apache Capital. The transaction values the 458-bed Paul St East, EC2, purpose-built student accommodation block in Shoreditch at more than £160m, which Gravis estimates reflects an NIY of 3.75%, which compares with the current Scape Shoreditch NIY of 4.15%. Also in March, Watkin Jones completed the £90m forward funding and sale of Kelaty House, a 599-bed student development in Wembley, to the real estate investment business of DWS, the investment management arm of Deutsche Bank of Germany, and a new entrant into the UK student accommodation market. Gravis estimates that the 4.90% agreed forward funding yield on the asset is consistent with a stabilised investment yield of c 4.5%. Although Kelaty House and Scape Wembley are comparable in terms of size, the stabilised yield for Scape Wembley is 4.90% despite it benefiting from closer proximity to underground transport links.

Should DIGS proceed with the acquisition of Scape Canalside, the price will be based on the estimated fair value. We do, however, expect some immediate capital value uplift as the agreement provides for DIGS to receive some discount on the difference between market value and the previously agreed minimum price.

Although a direct read-across from market transactions to the DIGS asset would not be appropriate, 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 25p, or more than 15%.

Valuation and performance

Performance continues to outpace 8–10% return target

The 8–10% long-term return target that DIGS has set reflects the anticipation of continued rental growth to drive income earnings and dividends, with a corresponding positive impact on capital values, assuming broadly stable yields and a positive impact from modest gearing. Returns since IPO have been well ahead of this target, and the H119 EPRA NAV total return of 7.9% represents an annualised rate of more than 16%.

In the period from IPO (20 May 2013) to the last published quarterly NAV at 31 December 2018 (end-H119), DIGS has generated an EPRA NAV total return (dividends reinvested) of 106.3% on the opening NAV per share (after issue costs) of 97p, or an annualised compound return of 13.8% pa. Over the same period, the share price total return (dividends reinvested) was an aggregate 88.2% on the IPO price of 100p, or an annualised compound return of 11.9% pa. The closing share price at 31 December 2018 was 148.4p and it has since risen to 155p.

Exhibit 7: Returns since IPO (at 100p per share) to 31 December 2018

(% pa)	One year	Three years	Five years	Since IPO
DIGS share price total return*	7.4	7.1	11.7	11.9
DIGS NAV total return**	12.3	9.6	14.4	13.8
All-UK property index total return	(13.0)	(3.6)	4.0	4.0
FTSE All-Share total return	(9.5)	6.1	4.1	4.2
Benchmark UK 10yr bond total return	2.0	4.6	5.9	4.1

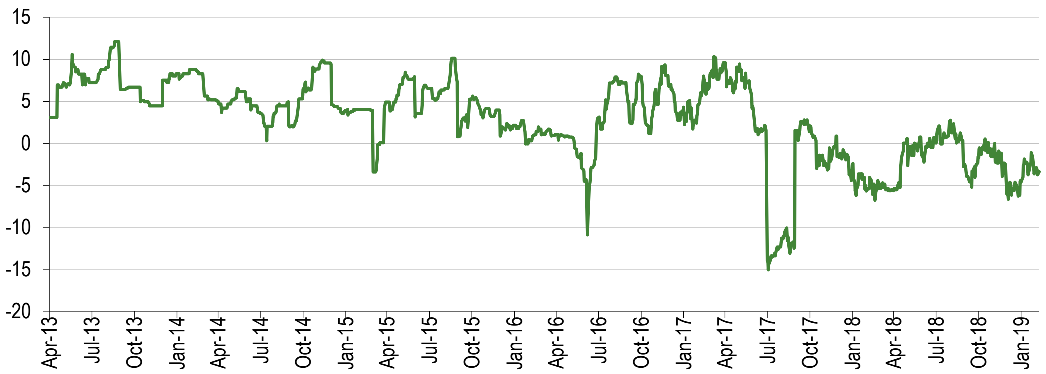
Source: Company data, Refinitiv, Edison Investment Research. Note: Data to 31 December 2018. Note: *Share price return since IPO based on IPO price of 100p. **NAV total return since IPO based on opening NAV, after issue costs, of 97p.

The DIGS NAV total return to 31 December 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 8). Since the mid-2016 EU referendum result, the continuing strong growth in NAV has outpaced the share price. Given that student accommodation as an asset class benefits from a more stable yield, with lower volatility than mainstream commercial property, the small discount to NAV appears attractive. Positive fundamentals in DIGS's target markets point to further rental growth. Combined with the completion and letting of assets currently under development, this should support future income growth and capital values, particularly given the continuing strong investor-led interest in PBSA assets, especially in London.

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



Source: Refinitiv

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. Reflecting positive sector fundamentals, all three stocks are trading very close to 12-month share price highs. DIGS offers a higher dividend yield compared with Unite and trades at a lower P/NAV. Empiric has a higher yield but as it continues to reposition itself from internally driven trading problems in 2017, the prospects for dividend growth are modest.

In the near term, the continuing strong fundamentals in DIGS's target areas of the market, and the further benefit to earnings, cash flow and dividend cover from the completion of assets currently under development, are positive indicators for DIGS's performance. Perhaps even more important is the DIGS focus on larger and more efficient, well-designed and purpose-built assets, in good locations in supply-constrained markets, factors which provide comfort that the portfolio will be capable of sustaining performance over the long term.

Exhibit 9: 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 Living	155	636	0.98	3.9	1%	2%	11%	-1%
Unite	922	2430	1.17	3.1	3%	12%	18%	-1%
Empiric	95	574	0.90	5.2	-4%	2%	13%	-4%
Average			**1.02**	**4.1**	**0%**	**5%**	**14%**	**-2%**
UK property index	1,750			4.9	3%	10%	-2%	-7%
FTSE All-Share Index	4,014			4.5	2%	9%	3%	-7%

Source: Company data, Edison Investment Research. Note: Prices at 19 March 2019. Based on last reported NAV and trailing 12-month DPS declared.

Exhibit 10: Financial summary

Year ending 30 June (£000's)	2014	2015	2016	2017	2018	H118	H218	H119
INCOME STATEMENT								
Rental income	9,132	11,505	22,482	28,806	35,790	17,317	18,473	20,868
Property operating expenses	(1,664)	(2,529)	(4,600)	(6,281)	(7,946)	(3,860)	(4,086)	(4,517)
Gross profit	7,468	8,976	17,882	22,525	27,844	13,457	14,387	16,351
Gross margin	81.8%	78.0%	79.5%	78.2%	77.8%	77.7%	77.9%	78.4%
Administrative expenses	(2,357)	(2,001)	(5,712)	(6,072)	(7,434)	(3,614)	(3,820)	(3,959)
Operating profit before gains on investment properties	5,111	6,975	12,170	16,453	20,410	9,843	10,567	12,392
Operating margin	56.0%	60.6%	54.1%	57.1%	57.0%	56.8%	57.2%	59.4%
Fair value gains on investment properties	5,010	25,660	27,156	11,855	47,565	32,357	15,208	39,898
Operating profit	10,121	32,635	39,326	28,308	67,975	42,200	25,775	52,290
Net finance expense - recurring	(2,412)	(1,336)	(3,366)	(4,794)	(6,917)	(3,354)	(3,563)	(3,430)
Non-recurring finance expense	0	0	(7,635)	0	0	0	0	0
PBT	7,709	31,299	28,325	23,514	61,058	38,846	22,212	48,860
Tax charge	0	(18)	3	(40)	0	0	0	0
Profit for the year	7,709	31,281	28,328	23,474	61,058	38,846	22,212	48,860
Adjust for:								
Fair value gains/(losses) on investment property	(5,010)	(25,660)	(27,156)	(11,855)	(47,565)	(32,357)	(15,208)	(39,898)
Fair value movement on financial derivative & close out fees	599	0	0	0	0	0	0	0
EPRA earnings	3,298	5,621	1,172	11,619	13,493	6,489	7,004	8,962
License fees on forward funded developments	0	0	0	1,421	1,490	876	614	976
Exceptional finance and other costs	0	0	8,519	394	427	0	427	0
Other	0	0	0	189	0	0	0	0
Adjusted earnings	3,298	5,621	9,691	13,623	15,410	7,365	8,045	9,938
Average number of shares (m)	73.4	109.9	183.0	290.5	384.3	383.5	385.1	398.7
IFRS EPS (p)	10.50	28.46	15.48	8.08	15.89	10.13	5.77	12.26
EPRA EPS (p)	4.49	5.11	.64	4.00	3.51	1.69	1.82	2.25
Adjusted EPS (p)	4.49	5.11	5.30	4.69	4.01	1.92	2.09	2.49
DPS declared (p)	5.47	5.60	5.66	5.75	5.95	2.96	2.99	3.06
BALANCE SHEET								
Investment property	151,560	177,220	424,787	634,640	784,424	739,585	784,424	838,964
Other non-current assets	956	308	815	308	2,956	308	2,956	2,956
Non-current assets	152,516	177,528	425,602	634,948	787,380	739,893	787,380	841,920
Cash & cash equivalents	3,629	106,292	66,337	55,110	29,213	61,943	29,213	19,781
Other current assets	1,362	18,683	6,867	7,517	9,005	16,423	9,005	44,055
Current assets	4,991	124,975	73,204	62,627	38,218	78,366	38,218	63,836
Interest bearing loans & borrowings	(39,456)	(39,569)	(128,174)	(217,469)	(232,771)	(232,594)	(232,771)	(231,679)
Other non-current liabilities	(956)	(522)	(815)	(308)	(308)	(308)	(308)	(308)
Non-current liabilities	(40,412)	(40,091)	(128,989)	(217,777)	(233,079)	(232,902)	(233,079)	(231,987)
Financial liabilities	0	(117,422)	0	0	0	0	0	0
Other current liabilities	(4,240)	(7,261)	(11,349)	(12,804)	(18,309)	(21,961)	(18,309)	(25,334)
Total current liabilities	(4,240)	(124,683)	(11,349)	(12,804)	(18,309)	(21,961)	(18,309)	(25,334)
Net assets	112,855	137,729	358,468	466,994	574,210	563,396	574,210	648,435
EPRA adjustments	(47)	214	0	0	0	0	0	0
EPRA net assets	112,808	137,943	358,468	466,994	574,210	563,396	574,210	648,435
Period end number of shares (m)	109.9	109.9	261.8	335.8	385.1	385.1	385.1	410.6
IFRS NAV per share (p)	102.7	125.3	136.9	139.1	149.1	146.3	149.1	157.9
EPRA NAV per share (p)	102.6	125.5	136.9	139.1	149.1	146.3	149.1	157.9
CASH FLOW								
Net cash flow generated from other activities	5,943	6,356	4,171	14,168	22,168	9,992	12,176	10,478
Net cash used in investing activities	(87,038)	0	(210,561)	(195,469)	(102,209)	(72,178)	(30,031)	(40,188)
Net cash flow generated from financing activity	84,724	96,307	166,435	170,074	54,144	69,019	(14,875)	20,278
Change in cash	3,629	102,663	(39,955)	(11,227)	(25,897)	6,833	(32,730)	(9,432)
Opening cash	0	3,629	106,292	66,337	55,110	55,110	61,943	29,213
Closing cash	3,629	106,292	66,337	55,110	29,213	61,943	29,213	19,781
Debt as per balance sheet	(39,456)	(156,991)	(128,174)	(217,469)	(232,771)	(232,594)	(232,771)	(231,679)
Unamortised loan arrangement fees	(544)	(431)	(1,826)	(2,531)	(2,229)	(2,406)	(2,229)	(3,321)
Drawn debt	(40,000)	(157,422)	(130,000)	(220,000)	(235,000)	(235,000)	(235,000)	(235,000)
Net debt	(36,371)	(51,130)	(63,663)	(164,890)	(205,787)	(173,057)	(205,787)	(215,219)
Net LTV	24.0%	28.9%	15.0%	26.0%	26.2%	23.4%	26.2%	25.7%

Source: Company data, Edison Investment Research

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