

GCP Student Living

Q220 update

Strong NAV returns and quarterly DPS increase

GCP Student Living (DIGS) continued to generate strong accounting and share price returns in the three months ended 31 December 2019 (Q220). Portfolio performance continues to benefit from strong supply-demand fundamentals in the markets in which it operates, primarily in and around London (85% of the portfolio value). This is reflected in full occupancy, above inflation rental growth and tightening valuation yields. Dividends are growing and cover building as new assets come on stream and DIGS is well on track for full cover on a fully developed and let basis.

Year end	Rental income (£m)	Adjusted earnings* (£m)	Adjusted EPS* (p)	EPRA NAV/share (p)	DPS (p)
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
06/19	44.4	21.2	5.23	165.5	6.15

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

Shareholder return 16.8% in Q220

Based on the share price with dividends reinvested, the Q220 shareholder total return was 16.8%, taking the year to date return to 24.3%. From the IPO in May 2013 to 31 December 2019 (share price 198p) the total share price return (dividends reinvested) was 160.8%, representing an annualised return of 15.6%. Q220 EPRA NAV per share (cum income) increased to 174.71p (end-FY19: 165.52p; end-Q120: 170.12p). Including DPS paid, the quarterly NAV total return was 3.6%, taking the year to date return to 7.4%. The Q220 quarterly DPS was declared at 1.58p (Q120: 1.57p) for payment on 9 March 2020.

Portfolio performance driving income and NAV

During Q220 the portfolio value increased to £987.3m and, like Q120, this was driven by investment in the forward-funded assets and organic growth reflecting rent increases, full occupancy and yield tightening. NAV per share also benefitted (by c 1.3p) from the accretive £77m (gross) share placing December at a 10.4% premium to the end-Q120 NAV. As previously disclosed, the portfolio is again fully let for the 2019/20 academic year with rental growth of 4.4%. With the student accommodation completed during Q120, the forward-funded Circus Street, Brighton will contribute to current year income and Scape Brighton remains on track to become operational for the FY20/21 academic year. With end-Q120 LTV at 19% and borrowing headroom in place, DIGS is well positioned to meet existing capex commitments and pursue additional growth opportunities including the potential acquisition of Scape Canalside.

Positive fundamentals support growth and returns

Share price and NAV returns continue to be well ahead of the 8–10% target set at IPO. Growing dividends are supported by continuing strong fundamentals in DIGS's chosen markets and should be covered by adjusted earnings on a fully operational basis. Recognising these strong returns the shares now trade at a c 16% premium to NAV; however, this is slightly below the sector average and the prospects for further income and capital growth appear positive.

Real estate investment trusts

5 February 2020

Price **203.5p**
Market cap **£926m**

NAV* 174.71p

Premium/(discount) to NAV 16%

*EPRA NAV (including income) at 31 December 2019

Yield* 3.1%

*Based on Q220 DPS of 1.57p annualised of 6.32p

Ordinary shares in issue 455.0m

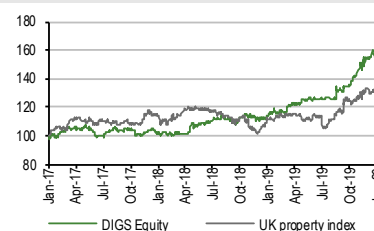
Code DIGS

Primary exchange LSE

AIC sector Property – UK residential

Benchmark N/A

DIGS vs UK property index (three-year total returns)



52-week high/low 156.2p 138.4p

NAV high/low 146.9p 138.4p

Gearing

Loan to value* 19%

*As at 31 December 2019

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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 through the potential for modest capital appreciation and regular, sustainable, long-term dividends with inflation-linked income characteristics.

Recent developments

- 4 February 2020: NAV, dividend, and portfolio update. 31 December EPRA NAV per share (cum income) 174.71p. Second quarterly interim DPS of 1.58p to be paid on 9 March 2020. Quarterly share price total return (dividends reinvested) 16.8% and NAV total return 3.6%.
- 19 December 2019: Results of placing. Oversubscribed placing at 186.0p per share scaled back to 41.4m shares raising gross proceeds of £77m, of which £50m subscribed by APG Asset Management NV.

Forthcoming

AGM	November 2020
H120 results	Mar 2020e
Year end	June
Dividend paid	Mar, Jun, Sep, Dec
Launch date	May 2013
Continuation vote	November 2021

Capital structure

Ongoing charges	1.32% (excluding direct property costs)
Loan to value	19% (Dec 2019)
Annual mgmt fee	1.0% of NAV
Performance fee	None
Trust life	Indefinite
Loan facilities	£335m

Fund details

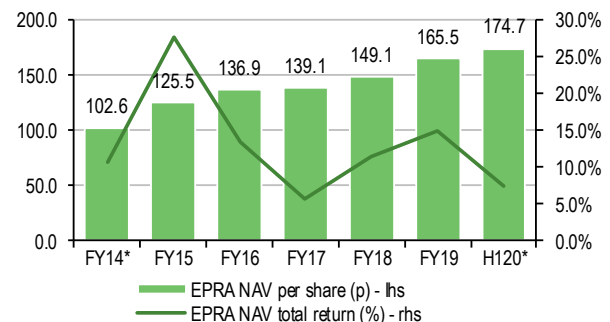
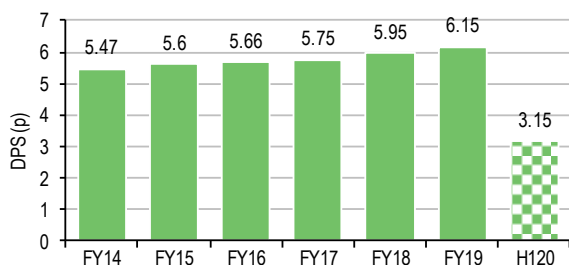
Group	Gravis Capital Management
Manager	Nick Barker
Address	24 Savile Row, London W1S 2ES
Phone	020 3405 8500
Website	www.gcpstudent.com

Dividend policy and history

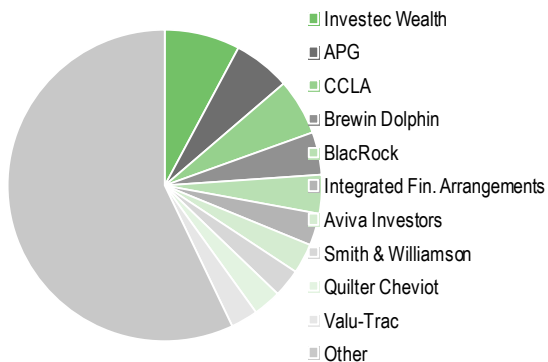
DIGS pays dividends quarterly. A key objective is to provide regular, sustainable, long-term dividends. FY14 is pro rata the 6.10p in dividends declared for the accounting period 20 May 2013 to June 2014, as published by DIGS.

EPRA NAV per share and EPRA NAV total return history

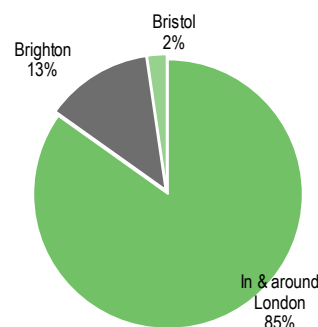
Average annual EPRA NAV total return from IPO to 31 December 2019, adding back but not reinvesting dividends, has been 12.0%. Based on the share price performance over the same period with dividends reinvested, annualised shareholder total return has been 15.6%.



Major shareholders



Geographic exposure by property value (at 31 December 2019)



Portfolio summary (at 31 December 2019)

Property	Location	Date of completion	Valuation (£m)	NIY	No. of beds
Scape Mile End	East London	2012	165.2	4.45%	588
Scape Wembley	North London	2017	107.0	4.65%	578
Scape Shoreditch	East London	2015	213.3	4.24%	541
Scape Bloomsbury	Central London	2018	196.5	4.00%	432
Scape Greenwich	East London	2014	60.8	4.55%	280
Podium	Egham	2017	31.8	5.65%	178
The Pad	Egham	Phase 1: 2012/phase2: 2015	34.4	5.80%	220
Scape Guildford	Guildford	2015	28.7	5.15%	141
Circus Street, Brighton*	Brighton	2019	74.2	3.94%	450
Water Lane Apartments	Bristol	2015	22.7	5.25%	153
Scape Brighton**	Brighton	2020e	52.7	N/A	555
Total			987.3	4.42%	4,116

Source: GCP Student Property. Note: NIY: net initial yield. *The student accommodation element of Circus Street is operational and the office element was under construction at 31 December 2019. **Scape Brighton is a forward funding agreement that is expected to complete in 2020.

Continuing to benefit from London focus

We last wrote in detail following the results for the year to 30 June 2019 (FY19) and will do so again following the publication of the interim results, expected in March 2020. In this note we provide an update on portfolio, NAV and DPS growth in the period to 31 December 2019 as well as other developments.

Quarterly DPS increased

For the Q220 period the company has declared a quarterly DPS of 1.58p and increase from 1.57p in Q120. The dividend will be paid on 9 March 2020 to shareholders on the register at 14 February 2020. It will be paid 1.42p as a REIT property income distribution (PID) for the tax-exempt property rental business and 0.16p as an ordinary UK dividend (non-PID).

The Q220 DPS annualises at 6.32p per share, representing a 3.1% yield on the ordinary share price. Tracking income growth, we note the quarterly DPS has increased in Q4 of each of the past three years.

Portfolio growth driven by investment, rent increases and further yield tightening

At 31 December 2019 (Q220) the portfolio was independently valued at £987.3m compared with £921.6m at end-FY19 (Q120: £962.2m), of which 85% by value was in and around London. The portfolio growth reflects continuing investment in the two forward-funded developments in Brighton as well as valuation growth at the operational assets. Organic operational asset value growth reflects the impact of increasing rents and further yield tightening across many of the assets, particularly those situated in the London area. The portfolio is again fully let for 2019/20 academic year, with rental growth of 4.4%. The blended portfolio net initial yield of 4.42% at end-Q220 compares with 4.54% at end-FY19 (end-Q120: 4.49%).

The forward-funded construction of the student accommodation at Circus Street, Brighton, was completed in Q120, in line with the investment managers' expectations. It provides 450 beds, contracted on a 21-year lease with annual rent uplifts of RPI plus 4bp, capped at 5% and floored at 2%, to a subsidiary of Kaplan, a global education provider. The 30,000 sq ft of commercial, primarily office, space was still under construction at end-Q220.

Scape Brighton, a large 555-bed development on the primary campus of the University of Brighton, remains on track to become operational for the 2020/21 academic year. The company benefits from licensing fees, which provide a 5.5% coupon on the funding extended in the construction phase.

Share placing accretive to NAV

In late December 2019 DIGS launched a non-pre-emptive share placing, under existing shareholder authorities. It targeted gross proceeds of up to £75m, in response to specific demand from APG Asset Management in its capacity as the discretionary manager of various pension funds, which had indicated its intention to subscribe for up to £75m of shares, subject to a minimum of £50m. The placing price of 186p was at a premium of 10.4% to the end-Q119 NAV per share and a discount of 6.3% to the share price immediately ahead of the launch. The placing was substantially oversubscribed requiring applications to be scaled back, with APG acquiring £50m of the £75m shares issued. We estimate the terms of the issue were c 1.3p, or c 0.8%, accretive to NAV per share.

DIGS intends that the net proceeds of the placing will be used to partly fund the acquisition of Scape Canalside (if acquired) and for the purpose of maintaining conservative borrowing levels, including (should Scape Canalside not be acquired) the repayment of re-drawable borrowings and

funding the completion of construction of its Scape Brighton asset with equity in place of drawing on additional debt for those purposes.

Further growth opportunities

Discussions with the vendor of Scape Canalside, for which DIGS has a conditional forward purchase agreement, are ongoing. Scape Canalside is high-specification, purpose-built, 412-bed private student accommodation residence located adjacent to Queen Mary University of London, a strong Russell Group higher-education institution. Its design and market positioning are complementary to the existing 588-bed Scape Mile End (formerly Scape East) that is in the same locality. Scape Canalside achieved practical completion in July 2019 and has been fully let for the 2019/20 academic year. If DIGS proceeds with the acquisition, the price would be determined by independent valuation, but the company has said this is likely to be in excess of £90m.

Additionally, the company has entered into a conditional forward-purchase agreement to acquire a well-situated, high-specification, purpose-built asset with 403 beds in the same locality as its 141-bed Scape Guildford asset. Guildford is home to the University of Surrey (a UK top 20 university), the University of Law and the Academy of Contemporary Music, contributing to an undersupply of private student residential accommodation and full occupation at Scape Surrey in each year since its acquisition in 2015. DIGS has provided no financial details at this stage. The property is expected to complete in time for the 2020/21 academic year.

Valuation and performance

Performance continues to outpace 8–10% return target

The 8–10% long-term return target that DIGS set at IPO 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 trend has continued in the first half of FY20. The H120 share price total return (dividends reinvested) was 24.3% and the annualised annual total return since IPO is now 15.6%.

Exhibit 2: Share price total returns						
Cumulative performance						
Period to 31 December 2019	3m	6m	1yr	3yr	5yr	Since IPO
	16.8%	24.3%	38.6%	51.2%	109.9%	160.8%
Annual performance						
12 months to 31 December	2019	2018	2017	2016	2015	
	38.6%	7.4%	1.6%	12.5%	23.4%	

Source: Company data, Bloomberg. Percentage growth in share price total return with income reinvested. Return since IPO is calculated by reference to the IPO issue price of 100p per ordinary share.

In Exhibit 3, we show a summary valuation and share price performance comparison for the three UK-listed student accommodation companies, DIGS, Unite and Empiric. 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. DIGS and Unite have both clearly outperformed the broad UK property sector and the FTSE All-Share Index over the past year.

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 under development are positive indicators for DIGS's performance. Perhaps even more important is DIGS's focus on larger and more efficient, well-designed and purpose-built assets, in good locations in supply-constrained markets, which provide comfort that the portfolio will be capable of sustaining performance over the long term.

Exhibit 3: Student accommodation valuations and performance

	Price (p)	Market cap (£m)	P/NAV (x)	Yield (%)	Share price performance			
					1 month	3 months	12 months	From 12m high
GCP Student Living	203	924	1.19	3.1	3%	16%	35%	-1%
Unite	1282	4660	1.56	2.3	2%	14%	41%	-4%
Empiric Student Properties	101	608	0.93	5.0	3%	7%	5%	-2%
Average			1.23	3.4	3%	12%	27%	-2%
UK property index	1,909			3.6	-2%	4%	13%	-3%
FTSE All-Share Index	4,102			4.5	-2%	3%	7%	-4%

Source: Company data, Edison Investment Research. Note: Prices at 26 January 2020. Based on last reported NAV and trailing 12-month DPS declared.

Exhibit 4: Financial summary

Year ending 30 June (£000's)	2014	2015	2016	2017	2018	2019
INCOME STATEMENT						
Rental income	9,132	11,505	22,482	28,806	35,790	44,410
Property operating expenses	(1,664)	(2,529)	(4,600)	(6,281)	(7,946)	(9,364)
Gross profit	7,468	8,976	17,882	22,525	27,844	35,046
Gross margin	81.8%	78.0%	79.5%	78.2%	77.8%	78.9%
Administrative expenses	(2,357)	(2,001)	(5,712)	(6,072)	(7,434)	(8,808)
Operating profit before gains on investment properties	5,111	6,975	12,170	16,453	20,410	26,238
Operating margin	56.0%	60.6%	54.1%	57.1%	57.0%	59.1%
Fair value gains on investment properties	5,010	25,660	27,156	11,855	47,565	73,865
Operating profit	10,121	32,635	39,326	28,308	67,975	100,103
Net finance expense - recurring	(2,412)	(1,336)	(3,366)	(4,794)	(6,917)	(7,317)
Non-recurring finance expense	0	0	(7,635)	0	0	0
PBT	7,709	31,299	28,325	23,514	61,058	92,786
Tax charge	0	(18)	3	(40)	0	0
Profit for the year	7,709	31,281	28,328	23,474	61,058	92,786
Adjust for:						
Fair value gains/(losses) on investment property	(5,010)	(25,660)	(27,156)	(11,855)	(47,565)	(73,865)
Fair value movement on financial derivative & close out fees	599	0	0	0	0	0
EPRA earnings	3,298	5,621	1,172	11,619	13,493	18,921
License fees on forward funded developments	0	0	0	1,421	1,490	2,263
Exceptional finance and other costs	0	0	8,519	394	427	0
Other	0	0	0	189	0	0
Adjusted earnings	3,298	5,621	9,691	13,623	15,410	21,184
Average number of shares (m)	73.4	109.9	183.0	290.5	384.3	404.8
IFRS EPS (p)	10.50	28.46	15.48	8.08	15.89	22.92
EPRA EPS (p)	4.49	5.11	.64	4.00	3.51	4.67
Adjusted EPS (p)	4.49	5.11	5.30	4.69	4.01	5.23
DPS declared (p)	5.47	5.60	5.66	5.75	5.95	6.15
Dividend cover (Adjusted earnings)	82%	91%	94%	82%	67%	85%
BALANCE SHEET						
Investment property	151,560	177,220	424,787	634,640	784,424	919,203
Other non-current assets	956	308	815	308	2,956	308
Non-current assets	152,516	177,528	425,602	634,948	787,380	919,511
Cash & cash equivalents	3,629	106,292	66,337	55,110	29,213	15,509
Other current assets	1,362	18,683	6,867	7,517	9,005	17,242
Current assets	4,991	124,975	73,204	62,627	38,218	32,751
Interest bearing loans & borrowings	(39,456)	(39,569)	(128,174)	(217,469)	(232,771)	(249,111)
Other non-current liabilities	(956)	(522)	(815)	(308)	(308)	(308)
Non-current liabilities	(40,412)	(40,091)	(128,989)	(217,777)	(233,079)	(249,419)
Financial liabilities	0	(117,422)	0	0	0	0
Other current liabilities	(4,240)	(7,261)	(11,349)	(12,804)	(18,309)	(18,180)
Total current liabilities	(4,240)	(124,683)	(11,349)	(12,804)	(18,309)	(18,180)
Net assets	112,855	137,729	358,468	466,994	574,210	684,663
EPRA adjustments	(47)	214	0	0	0	0
EPRA net assets	112,808	137,943	358,468	466,994	574,210	684,663
Period end number of shares (m)	109.9	109.9	261.8	335.8	385.1	413.7
IFRS NAV per share (p)	102.7	125.3	136.9	139.1	149.1	165.5
EPRA NAV per share (p)	102.6	125.5	136.9	139.1	149.1	165.5
CASH FLOW						
Net cash flow generated from other activities	5,943	6,356	4,171	14,168	21,398	25,614
Net cash used in investing activities	(87,038)	0	(210,561)	(195,469)	(101,439)	(66,199)
Net cash flow generated from financing activity	84,724	96,307	166,435	170,074	54,144	26,881
Change in cash	3,629	102,663	(39,955)	(11,227)	(25,897)	(13,704)
Opening cash	0	3,629	106,292	66,337	55,110	29,213
Closing cash	3,629	106,292	66,337	55,110	29,213	15,509
Debt as per balance sheet	(39,456)	(156,991)	(128,174)	(217,469)	(232,771)	(249,111)
Unamortised loan arrangement fees	(544)	(431)	(1,826)	(2,531)	(2,229)	(3,039)
Drawn debt	(40,000)	(157,422)	(130,000)	(220,000)	(235,000)	(252,150)
Net debt	(36,371)	(51,130)	(63,663)	(164,890)	(205,787)	(236,641)
Net LTV	24.0%	28.9%	15.0%	26.0%	26.2%	25.7%

Source: Company data, Edison Investment Research

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