

Market Data

Ticker	SRE	Broker Views	Click Here
Sector	Real Estate Investment & Services	Market Cap (£m)	£615
Technical analysis	Click Here	12 Month High/Low (p)	68.60 / 51.55

Overview

Sirius Real Estate is a real estate company that invests in and operates branded business parks providing conventional and flexible workspace to predominantly SMEs and blue-chip corporations in Germany.

Sirius invests in business parks in or close to the major cities in Germany where it has spotted the potential to generate higher income and asset value growth by subdividing and improving the existing space so that it can be marketed directly to occupiers under its unique range of products. These include office, storage, production and workshop solutions suitable for large international blue-chip companies through to conventional and flexible solutions designed for SMEs and retail customers.

Within the Group's 1.4m+ sqm of lettable space Sirius has three main offerings, suited to a broad range of clients:

1. Large-scale workspace suited to international blue-chip corporations (Siemens, GKN, MAN, etc) requiring sizeable production spaces and can be locked in to long-term leases
2. Conventional workspace targeted towards SMEs
3. Flexible workspace for SMEs and retail customers requiring serviced offices, workshops and/or self-storage on shorter leases

The stability provided by long term anchor tenants is complemented by the higher-income conventional and flexible workspace offerings.



Investment Case

Sirius represents a unique opportunity for investors to gain exposure to the attractive German light industrial and office real estate sector through a market leading owner and operator with a track record of active management and value creation.

Germany is a highly attractive market with strong fundamentals

- The German economy is the largest in Europe and characterised by strong GDP growth, low unemployment and high levels of investment and consumer spending
- 99% of German companies are SMEs, the core customer of Sirius
- Assets can be acquired at attractive yields and at capital values well below replacement cost
- Sirius seeks to buy assets with the potential to create value, predominantly through the asset management process by filling vacant space and converting space to higher value uses
- Sirius maintains overall group LTV at 40% or less, financing new acquisitions with up to 50% LTV using long-term, low interest debt and subsequently blending them with unencumbered assets in the portfolio
- Unlike its competitors, Sirius has a fully integrated operating platform incorporating in-house marketing and sales functions that allows it to lower risk and increase returns

Investment Case Continued...

Sirius has a well-structured portfolio

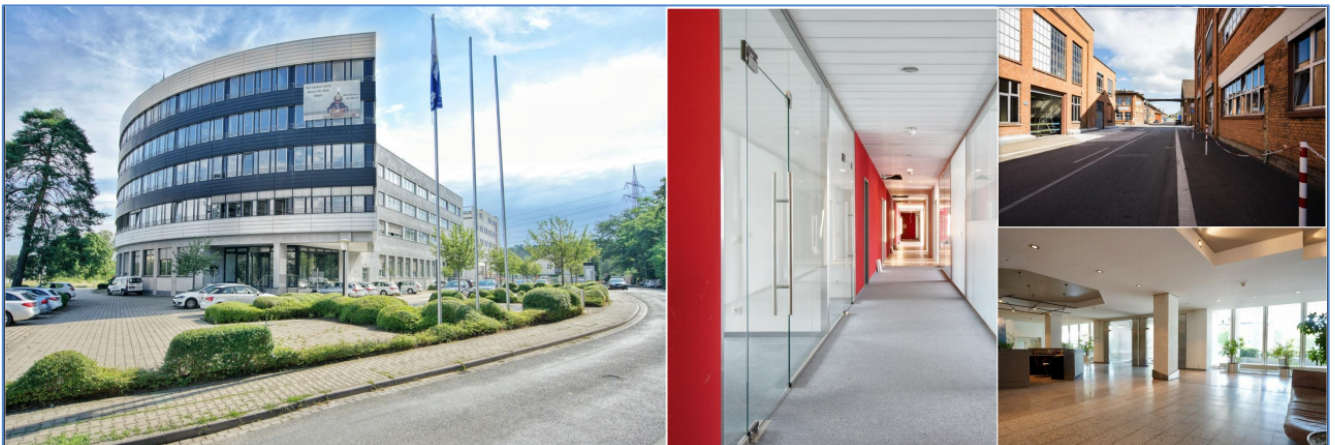
- Sirius owns a portfolio of €1bn of property assets
- Sirius owns and manages a substantial portfolio of mixed use real estate assets located in and around the “big seven” German markets
- Sirius has a well-diversified tenant base with the top 50 tenants generating 45% of annual income
- Future value enhancement to come from developing and letting the 21% of vacant space in the portfolio that is currently valued at an attractive 7.8% gross yield

Operating with a proven business model and solid track record

- Sirius has proven capability in transforming assets through its capex investment programmes, which deliver returns in excess of 40% and enhance income and capital values
- Highly-developed in-house marketing and sales capability that targets prospective tenants directly using online and offline techniques that reduce the overall cost of acquiring customers and minimises dependency on third party agents
- Dedicated service charge team delivers best-in-class cost recovery by utilising advanced measurement and cost allocation techniques
- The Company is led by a team of highly experienced individuals who have been tested over the full real estate investment cycle

Delivering a stable and attractive return profile

- Sirius has delivered a total shareholder accounting return in excess of 15% over the last three years
- The Group’s policy of distributing 65% of FFO as dividends ensures it maintains a well-covered dividend and provides the head-room to flex pay-out ratios as required
- Dividend yield in excess of 5%
- Defensive gross yield of 7.8% with valuation gains mainly resulting from improvements in income
- Further value and income enhancement to come from a combination of asset recycling, filling vacant space in recently acquired assets, implementation and completion of accretive capex investment programmes and reductions in service charge leakage



Market overview

As the largest and strongest economy in Europe, Germany has consistently delivered robust economic growth over the past decade and remains the central driver of the European economy. The German Federal Statistical Office reported Q4-17 GDP growth of 4.6% in absolute terms, 2.9% when adjusted for inflation.

These positive trends provide a favourable backdrop for German industry and, therefore, Sirius's target real estate market:

- In 2017 German commercial investment increased 4% to €57.1bn
- A record €8.7bn invested into logistics and industrial property, up 84%

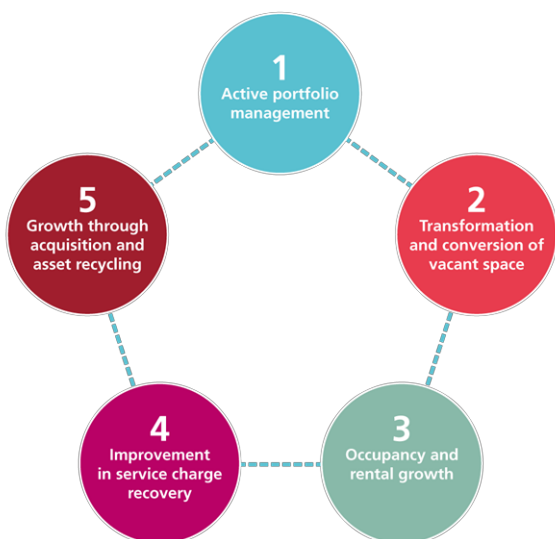
Demand for assets is expected to remain high, while new build incremental capacity is limited, thereby creating an environment that should see rent rises and yield compression.

SMEs continue to represent a fundamental pillar of the German economy and form a significant part of Sirius's tenant base. According to KfW, 99.95% of German enterprises are SMEs and 68% of workers (29.1 million people) are employed by an SME in Germany.

Within the SME category are microenterprises with fewer than 10 employees and these account for 34% of workplaces in Germany. These are the tenants to which Sirius's flexible space offerings are most appealing.

The five value drivers

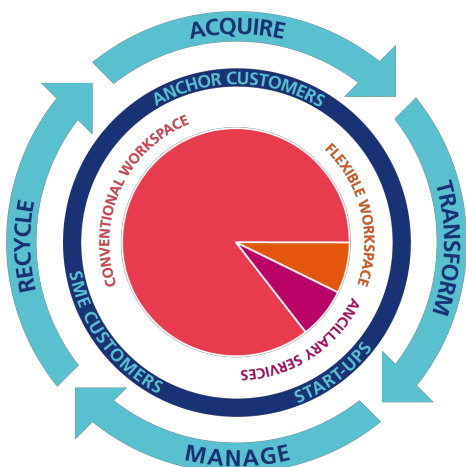
The Group's core strategy is the acquisition of business parks at attractive yields and/or with value-add potential which are transformed through investment and asset management to become higher quality real estate assets



There are three main types of assets that Sirius looks to acquire: traditional business parks developed for large-scale production; mixed use business parks with high quality office; service and warehouse properties and office buildings in secondary and tertiary locations. The management team has a tried and tested approach to maximising the return on investment of these types of assets.

Business model

Increasing rental and capital value through active portfolio management



Conventional workspace

- Long term
- Large scale
- Production
- Storage
- Office

Flexible workspace

- Long and short term
- Office
- Production
- Storage

Ancillary services

- Conferencing
- Catering
- Internet and telephony

Experienced Board of Directors



Andrew Coombs
CEO



Alistair Marks
CFO



Daniel Kitchen
Chairman



Wessel Hamman
NED



James Peggie
NED



Jill May
NED



Justin Atkinson
NED

Andrew and **Alistair** were appointed as CEO and CFO respectively of Sirius in January 2012, when Sirius internalised the asset management platform. **Andrew** had joined the asset manager in 2010 and **Alistair** had been with the asset manager since formation. **Danny Kitchen** is non-executive chairman of Workspace Group, Hibernia REIT and Applegreen. He is also a Director of the Irish Takeover Panel. **Wessel** is the chief executive of Clearance Capital Limited, a European Real Estate investment management firm he co-founded in 2008. **James** is a director and co-founder of the Principle Capital Group and prior to that was head of legal and corporate affairs at the Active Value group. **Jill** has 24 years' City experience in investment banking, 13 years in M&A and more recently as a Managing Director focused on strategy and organisational change at UBS. **Justin** was the chief executive of Keller Group plc from April 2004 to May 2015. Previously, he had been Keller's group finance director and its chief operating officer.

Portfolio at a glance – 30 September 2018

Sept-18	No. Of Properties	Total Sqm m	Occupancy	Rate psm €	Annualised Rent €m	% of Portfolio By Rent	Value €m	Gross Yield
Frankfurt	13	0.3	88.5%	6.04	19.5	24%	241.4	8.1%
Berlin	6	0.2	91.9%	5.63	12.7	15%	170.6	7.4%
Stuttgart	7	0.3	85.9%	4.57	12.2	15%	144.6	8.4%
Cologne	7	0.1	87.1%	7.08	9.4	11%	121.9	7.7%
Munich	2	0.1	80.6%	6.51	6.6	8%	110.9	6.0%
Düsseldorf	8	0.1	73.5%	5.62	5.2	6%	77.0	6.7%
Hamburg	2	0.1	58.0%	4.27	1.5	2%	25.4	5.9%
Non-core	1	0.1	17.9%	3.82	0.5	1%	3.9	12.2%
Other	9	0.3	78.5%	6.03	14.5	18%	156.9	9.2%
TOTAL	55	1.5	81.2%	5.74	82.0	100%	1,052.5	7.8%



Financials for the half-year ended 30 September 2018

Income statement

	As at Sep 18 €m	As at Sep 17 €m	Movement €m
Rental income	40.4	34.8	5.6
Service charge irrecoverable costs	(3.3)	(3.4)	0.1
Non-recoverable maintenance	(0.8)	(1.0)	0.2
Net Operating Income	36.3	30.4	5.9
Corporate costs and overheads	(9.0)	(8.2)	(0.8)
Adjusted EBITDA	27.3	22.2	5.1
Bank interest	(3.9)	(3.5)	(0.4)
Current tax (excluding tax on disposals)	(0.1)	(0.2)	0.1
FFO	23.3	18.5	4.8
Amortisation of financing fees	(0.6)	(0.6)	(0.0)
Depreciation	(0.7)	(0.6)	(0.1)
Add back current taxes (excluding tax on disposals)	0.1	0.2	(0.1)
Adjusted profit before tax	22.1	17.5	4.6
Adjusting items	(0.1)	(3.5)	3.4
Surplus/Deficit on revaluation of investment properties	56.2	41.6	14.6
(Loss)/Gain on disposal of investment properties	0.1	(0.9)	1.0
Change in fair value of derivative financial instruments	(0.1)	-	(0.1)
Profit Before Tax	78.2	54.7	23.5

Balance sheet

	As at Sep 2018 €m	As at Mar 2018 €m	Movement €m
Assets			
Investment properties (including assets held for sale)	1,048.8	931.2	117.6
Prepayments for investment properties	11.3	35.6	(24.3)
Plant and equipment	2.9	3.1	(0.2)
Goodwill	3.7	3.7	-
Deferred tax asset	0.4	0.8	(0.4)
Trade and other receivables	11.7	9.5	2.2
Cash and cash equivalents	39.4	79.6	(40.2)
Total Assets	1,118.2	1,063.5	54.7
Liabilities			
Trade and other payables	(39.6)	(41.0)	1.4
Interest bearing bank loans	(362.1)	(367.1)	4.9
Current & Deferred tax liabilities	(36.8)	(29.5)	(7.3)
Derivative financial instruments	(0.3)	(0.3)	-
Total Liabilities	(438.8)	(437.9)	(0.9)
Net Assets	679.4	625.6	53.8
NAV per share	67.29c	63.09c	
ADJUSTED NAV per share	70.52c	65.71c	
EPRA NAV per share	70.16c	64.18c	

Strategy for Growth

Value generation:

Sirius has a proven ability to transform assets by delivering improvements to tenant mix, occupancy levels and rents. In the first half, it achieved a €69.3 million valuation uplift, new lettings of more than 83,000 sqm and €6.6 million of annualised rent roll signed in the period. It also reported 2.6% like-for-like rental growth, despite the impact from three expected large move-outs.

Operating model driving returns:

Sirius differentiates itself by controlling key functions which enhance the tenant's experience and are proven to deliver results over and above outsourced alternatives. In-house teams for lettings, marketing, service charge recovery, property management, and acquisitions drive top line growth and margin improvement across all the company's assets. Sirius' SmartSpace solutions – innovative uses of suboptimal space that represent c7% of total lettable area – give flexibility in the search for acquisition targets and deliver eye-catching rental yields

Favourable market dynamics:

Germany provides a unique market opportunity with an estimated 3.6m mid-sized businesses – the Mittelstand – located across the country. Often technology-driven, these businesses are in many cases global leaders and run with a view to secure the long term existence of the company as opposed to short term profit maximisation. As a result Germany provides Sirius with a large market opportunity and a broad client base of long term, stable tenants.

Shareholder Data

LEADING SHAREHOLDERS *	(%)
Blackrock	9.6
Mstead Limited	5.8
Old Mutual Investment Group	5.7
Bank of Montreal	5.0
Standard Life Aberdeen	3.8

FINANCIAL CALENDAR	
Next year end	31 Mar 19
Next final results (approx.)	Jun 19
Next half year	30 Sep 2019
Next AGM (approx.)	Sep 2019
Next half year (approx.)	Oct 2019

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