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Client: GCP Student Living

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REAL ESTATE INVESTMENT TRUSTS
GCP STUDENT LIVING (DIGS) **BUY**

Dig into GCP Student Living

Bull points

- Modest gearing
- Significant undersupply of student beds
- High exposure to a supply-constrained London market
- Portfolio fully occupied

Bear points

- Dividend currently not covered by earnings
- Student numbers could fall

In a break with our conventional tip format, we're suggesting **GCP Student Living (DIGS)** as a buy – but not quite yet. The reason for the delayed gratification approach is that at the time of writing the student accommodation real-estate investment trust (Reit) is looking at ways to finance a noteworthy property transaction. Funding may well take the form of a non-pre-emptive placing, which was the case with an oversubscribed £70m, 142p-a-share fundraising a year ago that enhanced the net asset value (NAV), but coincided with the shares falling by about 5 per cent to the placing price. If history repeats, there could be a more attractive entry point following a placing. But even if the financing of the new deal does not knock the shares, the virtues of GCP's portfolio, the shares' attractive yield and the discount to forecast NAV still make us rate the shares a buy.

The new investment opportunity announced by GCP earlier this month involves buying its second asset in Brighton, which, following forward-funded development, will house 550 beds and 1,500 square foot of retail space. This acquisition and last year's purchase of a 450-bed Brighton development marks a move by GCP away from properties in and around London, which currently make up 95 per cent of its 3,600-bed portfolio. Importantly, in common with London, Brighton has a structural shortfall of purpose-built student accommodation along with high demand and limited supply.

Indeed, unlike most regional locations where supply/demand imbalances can easily be addressed by development, strict competition for space in GCP's target markets – housing, commercial and office – keeps a lid on supply. In fact, in London delivery of private student beds in 2017-18 was just 3,000, the

lowest level in a decade. And, in the past five years, student accommodation developments have collapsed by over three-quarters.

This dynamic underpins rents and property values. Indeed, with the portfolio fully occupied (apart from refurbishments), rental growth of 4.1 per cent is already secured for the 2017-18 academic year.

Of the 10 assets owned (soon likely to be 11), eight are operational. While the dividend payout is attractive, it is not covered by income

from the operational properties.

However, management expects it to be fully covered once all properties are up and running, which includes the new investment opportunity should

everything go ahead as expected. A fundraising for the new deal should help GCP keep a firm hold on debt, with the loan-to-value ratio at the start of 2018 at a modest 23 per cent.

GCP's new focus on Brighton improves growth potential. Meanwhile, a likely imminent fundraising may provide the chance to buy in at a better price, so we're recommending GCP as a buy, but only once any placing is complete. *JC*

IC TIP RATING

Tip style: **GROWTH**

Risk rating: **LOW**

Timescale: **MEDIUM TERM**



GCP Student Living

Ord Price: 145.2p Market Value: £559m
 Touch: 145-145.2p 12-Month High: 150p Low: 136p
 Forward Dividend Yield: 4.2% Trading Properties: nil
 Discount To Forward NAV: 6%
 Investment Properties: £740m Net Debt: 30%

Year to 31 Dec	Net asset value (p)*	Earnings per share (p)*	Dividend per share (p)
2015	125	5.3	5.6
2016	137	5.3	5.66
2017	138	4.7	5.8
2018*	148	3.3	6
2019*	154	4.7	6.1
% change	+4	+42	+2

*Sifted forecasts, adjusted PTP and EPS figures
 Normal market size: 10,000 Beta: 0.46 Last IC view: None