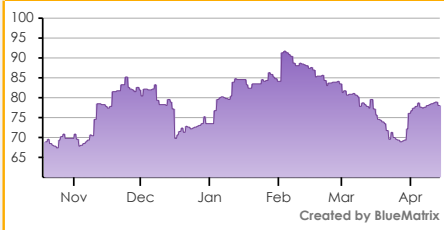
SIRIUS REAL ESTATE LTD (LON:SRE)

17 April 2023

Real Estate

52-WEEK HIGH	**£133.00**
52-WEEK LOW	**£64.20**
PRICE	**£87.20**
MARKET CAP MLN	£1,025.35

Share Price



Major Shareholders

Shares in issue	1,175,863,985
Avg Three-month trading volume	2,815,847
Primary Index	LON

Company Information

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Analyst Details

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Sirius Real Estate: A unique opportunity with a medium risk/return profile

Listed on the main market of both the London Stock Exchange and the Johannesburg Stock Exchange, Sirius Real Estate is a company that's on a mission to provide small and medium-sized businesses with a workspace that fits perfectly to their needs in order to improve and maximise their businesses. The company is focused on the provision of industrial, manufacturing, office and storage workspaces in Germany and the United Kingdom.

What makes Sirius' business model unique is that whilst it is very good at letting out its major spaces conventionally to large tenants on long-term contracts, it is able to significantly enhance its returns and reduce its risk profile by converting the large amount of structural vacancy, that typically come with large industrial assets, into flexible workspaces that are in high demand in all market conditions.

These workspaces are designed and managed based on the abundance of real estate and demand-related, proprietary data that the company has generated and continues to generate from its in-house marketing platform.

Creating the workspace that fit to its tenants' needs enables these businesses to improve productivity while reducing costs, ultimately leading these businesses to improve and maximise their profits.

Sirius is only able to do this because of the highly effective management platform that it has created over the last 17 years in Germany.

This gives Sirius a huge competitive advantage over others operating industrial assets in Germany and allows it to make exceptionally high returns in all market conditions whilst significantly reducing its risk through diversification.

The expected return of an investment in Sirius over the next five years is 99%, according to our default assumptions, which equates to an annual return of 15%. In other words, a £100,000 investment in the company is expected to return £199,000 in five years' time.

The degree of risk associated with an investment in Sirius is 'medium', with the shares having an adjusted beta that is 1.6% above the market (1.016 vs. 1). Assuming that a suitable return level over five years is 10% per year, then an investment in the company is a 'suitable' one.

Year end Mar 31	2021	2022	2023	2024
Portfolio value, €-bn	1.36	2.08	2.12	2.15
FFO, €-mln	60.9	74.6	97.0	100.0
FFO/Shr, €-cents	5.84	6.78	8.25	8.50
Div/Shr, €-cents	3.80	4.41	5.40	5.60
Adj. NAV/shr €-cents	93.8	108.5	109.5	114.5

Andrew Coombs, chief executive officer, joined the Sirius Facilities Group in January 2010. Before that, he worked for the Regus Group as UK sales director and before that as director and general manager for MWB Business Exchange PLC.

Alistair Marks, chief investment officer & interim CFO, joined the then external asset manager of Sirius in 2007 from MWB Business Exchange PLC just before the IPO on AIM and has remained with the group following the management internalisation in January 2012. Prior to MWB, Alistair held financial roles with BBA Group Plc and Pfizer Ltd and qualified as a Chartered Accountant with BDO in Australia.

Unique value proposition

Sirius specialises in the ownership, development and operations of business parks throughout Germany and the UK which have either attractive yields, value-add potential, or both.

What makes Sirius different is its best-in-class operating platform and intensive asset management programme. Combining the Sirius property portfolio together with its unique operating platform gives it a range of advantages in the market which enable the delivery of strong and consistent returns for shareholders.

Sizeable market

The market in which the company operates is material, with annual commercial real estate rental income in Germany and the United Kingdom as of today estimated at around £100 billion, according to our estimates.

Attractive valuation

Research suggests that in terms of estimating the expected return of an investment over a period of 12 months or more, the approach that is more accurate is the discounted cash flow approach, so that's the approach that we suggest using here.

While Sirius has paid a dividend every year since the company's listing on the London Stock Exchange (in 2007), at the moment, the growth rate of the dividend varies materially; accordingly, we suggest valuing the business using the free cash flow valuation approach (rather than the dividend discount model approach).

The key things that underlie our model inputs include: the company operates in a market that is material in terms of size; the management of the company has a proven track record of effectively operating and managing real estate, and, ultimately, delivering strong shareholder returns; and the company's value proposition is unique.

Operations

Sirius in Germany was established in 2006 by the Oppenheim family (Kevin and Frank) in partnership with Dawnay Day. The idea came from the expansion of the Saturn business that they ran in the UK from the late 1990s. The business went through an IPO early 2007 and was initially listed on AIM. The original idea to break down large industrial, office and storage areas into workspace for the German SMEs came from Frank Oppenheim but was fully optimised and expanded to what Sirius is today by Alistair Marks (who joined the Sirius Group as CFO to take it through its initial IPO) and Andrew Coombs (who worked with Alistair previously for many years and joined the Sirius Group later in 2010). These two have built a strong management team around them to manage all the key areas which make the business model work so effectively.

Frank Oppenheim's idea was to break up as much space as possible to create a predominantly flexible offering, Andrew and Alistair were able to focus this on just the space that was not able to be let conventionally and try and keep a substantial amount of the Company's income coming from large, often blue-chip tenants on a long-term basis. This allowed the risk profile of the business to remain strong and hence Sirius would be attractive to potential debt providers there was enough space that was "surplus" or "structurally vacant" that could be converted into flexible products that enhanced returns to attract equity providers. Hence, the original mission of the company to create and manage workspaces that empower small and medium-sized businesses to grow, evolve and thrive has been used to create a property investment business like no other that is able to make high returns throughout the property cycle in a diverse and low-risk way.

Sirius operates a portfolio of assets across Germany and the United Kingdom. In Germany, the company's focus is on the seven largest cities: Berlin, Hamburg, Düsseldorf, Köln, Frankfurt, Stuttgart and München, with a secondary focus on a selection of key border towns, such as Aachen, Saarbrücken, Mahlsdorf and Frieburg. In the UK, where it operates under the BizSpace brand, its sites are in convenient, regional locations.

The company looks for mixed-use properties, primarily light industrial units, business parks or office buildings outside city centres, or on the edge of towns, in neighbourhoods which have a high density of commercial and industrial activity and good transport links. By revitalising, providing and actively managing the optimum spaces for its tenants, Sirius helps them expand, move and multiply.

Sirius' portfolio includes industrial, manufacturing, urban logistics/production, storage and out-of-town office space that caters to multiple usages and a vast range of sizes and tenant types. The diversity of the company's tenant base ranges from large stable and long-term anchor tenants through to the flexible SME and private customers who are the engine room of any economy.

Germany

In Germany, the group's large anchor tenants are typically multinational corporations occupying production, storage and related office space. Those tenants contribute around 40% of the German rental income. The flexible tenant base is predominantly those who are renting the Smartspace branded offices, self-storage and workbox spaces and generally comprises much smaller tenants on a more flexible basis. Those flexible spaces are currently contributing about 7% of the German rental income. The other half of the German rental income comes from the SME sector which occupies both smaller and larger space on a conventional basis. Managing the SME tenant base is the bread and butter of what Sirius does and which it can do far more effectively than its competitors because of its in-house sales and marketing platform that the company has developed over the last 15 years. That, along with the ability to convert, fill up and manage the Smartspace areas, which are usually transformed from areas where Sirius' competitors leave as a structural vacancy, is a key differentiator of Sirius.

The table below illustrates the diverse nature of the tenant mix within the German portfolio at the end of the reporting period:

	No. of tenants as at 30 September 2022	Occupied sqm	% of occupied sqm	Annualised rent income (€m)	% of total annualised rent income %	Rate per sqm (€)
Top 50 anchor tenants[4]	50	673,988	46%	45.5	40%	5.63
Smartspace SME tenants[5]	2,855	68,322	5%	7.9	7%	9.64
Other SME tenants[6]	2,897	727,497	49%	61.8	53%	7.07
Total	5,802	1,469,806	100%	115.2	100%	6.53

Source: Sirius and Proactive Investors.

Offices

The office space within the German portfolio comprises office areas and buildings on industrial business parks, office buildings attached to warehouses and standalone office buildings in more traditional office areas.

Within those office types, Sirius offers a wide range of conventional and flexible office offerings on either long or short-term leases. Some business centres offer service packages such as furniture, IT and conferencing as well as co-working areas and virtual offices.

Storage

For businesses and private households, the wide range of storage space on offer in the Sirius estate provides many options on varying scales. Warehouse, storerooms and self-storage options are available in Sirius business parks.

Production, warehouses and workshops

Large production areas form the base of many Sirius' business parks; however, those are complimented by smaller workshop areas, which give clients optionality as they start their businesses and as their business needs change.

Additionally, modern business parks often have large warehouse spaces which can be used for many purposes.

Traditional business parks

Traditional business parks typically comprise multiple mixed-use buildings and contain in excess of 30,000 sqm of workspace. The company's traditional business parks offer conventional large-scale industrial, storage and office facilities as well as flexible serviced office, self-storage and workbox options which are created from the more difficult areas of the sites. Those business parks are home to large blue-chip industrial tenants such as GKN, Bopp & Reuther and Borsig as well as a significant number of SME and individual tenants that together create thriving business communities.

Modern business parks

Modern business parks typically contain a combination of warehouse and office buildings across a site which is 20,000 sqm or more. The quality and look of the modern business parks are usually of a higher standard (than traditional business parks), and whilst they are easier to manage, due to a higher proportion of office space, the value-add potential that can be extracted from the assets within the Sirius business model is usually still very good.

Office buildings

The pure office buildings that Sirius buys are usually well located on the periphery of major economic centres and offer both conventional and flexible office space to SMEs and larger corporates seeking a cost-effective alternative to city centre locations. The company's office buildings provide high-quality space that can be quickly adapted to meet the changing needs and working practices of its tenants.

UK

BizSpace is a leading provider of regional workspace across the UK, offering light industrial, workshop, studio and out-of-town office units to a wide range of businesses offering a blend of flexible agreements and longer-term leases. BizSpace's top 100 tenants are larger corporate customers representing 25% of its annualised income, whilst the remaining 75% are made up of SME and micro-SME tenants.

Industrial

BizSpace's industrial workshops are a combination of self-contained units which have roller shutter doors and converted manufacturing complexes which have been subdivided to cater for SMEs. This product is unfurnished and sold on a square foot basis.

Mixed use

BizSpace's mixed sites have a combination of workshop space and office space on site. Those sites are typically converted mills or factories which have been modernised and repositioned to provide flexible workspace accommodation. The sites all have a part-time or full-time manager on site, but the customer proposition is centred around value for money. All units are sold unfurnished on a square foot basis with the customer having the flexibility to choose between a lease or a licence.

Office

BizSpace's office assets are dedicated to SMEs and micro-businesses that seek maximum flexibility. The units are generally unfurnished and sold on a sq ft basis with customers benefiting from a dedicated on-site manager. Customers have the ability to take advantage of additional services such as the provision of internet services and furniture. In addition, BizSpace provides a full serviced office offering at a smaller number of locations which enable customers to benefit from a wider range of services at an all-inclusive, fixed price per desk.

Smartspace

The company's Smartspace product is attractive to a wide range of customers. The Smartspace brand and product range is created through Sirius' highly effective capex programme into sub-optimal space which is otherwise extremely difficult to let and usually left vacant by other operators. The transformation of the space deals with the problems of the site and materially improves the quality and feel of the entire business park. From the customer perspective, Smartspace offers them a range of affordable serviced offices, self-storage units and workboxes on a flexible basis that can be tailored to their needs.

The annualised rental income being generated from Smartspace, excluding the element that covers service charge costs, is now €7.9 million. The occupancy of Smartspace is at 72%, and the rate is €9.64 per sqm.

A summary of Smartspace products and their contribution to the group is set out below:

Smartspace product type	Total sqm	Occupied sqm	Occupancy %	Annualised rent roll (excl. service charge €000)	% of total Smartspace annualised rent roll	Rate per sqm (excl. service charge) €
First Choice Office	5,117	3,037	59%	825	10%	22.63
SMSP Office	31,789	24,029	76%	2,895	37%	10.04
SMSP Workbox	5,974	5,524	92%	431	5%	6.51
SMSP Storage	48,772	34,332	70%	3,316	42%	8.05
SMSP Containers	-	-	-	290	4%	-
SMSP sub-total	91,652	66,922	73%	7,757	98%	9.66
SMSP Flexilager	3,686	1,400	38%	145	2%	8.62
SMSP total	95,338	68,322	72%	7902	100%	9.64

Source: Sirius and Proactive Investors.

The platform

The Sirius operating platform offers a number of benefits including direct sourcing of new asset acquisition opportunities, reduced reliance on commercial agents and local brokers, higher cost recovery, greater lead generation and more efficient new tenant acquisition, and increased optionality in terms of space configuration, as well as enhanced control, focus and speed in developing space.

Strategy

The company's core strategy is the acquisition of business parks in Germany and the UK that have either attractive yields, value-add potential, or both. Sirius transforms these business parks into higher-quality assets through investment and intensive asset management.

Once sites are mature and net income and values have been optimised, Sirius may then refinance the sites to release capital for investment in new sites or consider the disposal of sites in order to recycle equity into assets which present greater opportunity to deploy the Sirius team's asset management skills.

There are five key value drivers:

1. Active Portfolio Management – increasing rental and capital value through active portfolio management.
2. Transforming and converting vacant space - subdividing and improving existing space so that it can be marketed directly to occupiers using the different Sirius products.
3. Occupancy and rental growth – transforming assets by delivering improvements to tenant mix, occupancy levels and rents.
4. Improvement of service charge recovery – delivering best-in-class cost recovery by utilising advanced measurement and cost allocation techniques.
5. Growth through acquisition and asset recycling – optimising value and recycling equity into assets which present greater opportunity for active asset management.

Team

The management team has a wealth of experience in the real estate industry and in delivering strong shareholder returns.

Non-executive chairman

Danny Kitchen brings more than 25 years of property and finance experience in both the listed and private markets. After 14 years in corporate finance and M&A with the Investment Bank of Ireland, he was appointed in 1994 as chief finance officer of Green Property PLC, an Irish-listed property company. In 2003 he left to join Heron International as group finance director and deputy chief executive. He is currently non- executive chairman of Hibernia REIT plc and was non-executive chairman of Applegreen PLC. Danny was appointed chairman of Irish Nationwide Building Society between 2008 and 2011 and was a Director of the Irish Takeover Panel until 5 June 2020.

Chief executive officer

Andrew Coombs joined the Sirius Facilities Group in January 2010. Prior to joining Sirius, Andrew worked for the Regus Group as UK sales director and before that as director and general manager for MWB Business Exchange PLC. Prior to working in the property sector, Andrew held a number of general management roles. Andrew's responsibilities to Sirius Real Estate include formulating and agreeing the strategy for delivering shareholder value. He is also responsible for running Sirius Facilities GmbH, together with the group of other operating companies owned by Sirius in Germany, and it is through these operating companies that the strategy is ultimately executed.

Chief investment officer & interim CFO

Alistair Marks joined the then external asset manager of Sirius in 2007 from MWB Business Exchange Plc just before the IPO on AIM and has remained with the Group following the management internalisation in January 2012. Prior to MWB Business Exchange, Alistair held financial roles with BBA Group Plc and Pfizer Ltd and qualified as a Chartered Accountant with BDO in Australia. Alistair is responsible for the Company's banking relationships including restructuring, sourcing and negotiating all terms within the Group's debt facilities. Alistair will focus on the Group's investment activity, covering acquisitions, disposals and capex investment programmes, utilising his significant experience in the industrial, office and business parks sector, as well as deep operational experience and expertise to identify and execute on a wide range of opportunities that unlock value for the Group.

On March 27, the company announced the appointment of Chris Bowman as its new chief financial officer. Chris brings with him nearly 25 years of experience in accounting, finance, and capital markets, having most recently led the UK investment banking arm of Berenberg, a business division which he built from scratch eight years ago and has grown to become one of the UK's leading mid-market public company advisers. Before that, he spent seven years in investment banking at Liberum and worked in corporate finance at Canaccord and Credit Lyonnais. Chris qualified as a chartered accountant with KPMG in 2000. His appointment will take effect on August 29, at which time he will also join the Sirius board.

Upon Chris' arrival, Alistair Marks, who has been serving as interim CFO (and formerly CFO), will fully resume his role as chief investment officer, a position he has held since January 2021. Alistair will step down from the Sirius Board at this year's AGM on 10th July but will remain employed by the company to lead its investment strategy across Germany and the U.K.

Independent non-executive director

James Peggie 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. He is a qualified solicitor and, before working at Active Value, he worked in the corporate finance division of an international law firm. James graduated from the University of Oxford in 1992 and in 1994 from The College of Law. James has a wealth of experience as a director of various publicly listed and private companies, including Liberty plc from 2006 to 2010.

Independent non-executive director

Mark Cherry is a chartered surveyor having qualified in 1983 and brings a wealth of Real Estate knowledge in the investment and asset management markets. Mark was a main board director of Green Property PLC for 10 years, dealing with the UK market and left on the sale of the UK portfolio in 2003. Subsequently, he held a board-level role at Teesland plc, a Fund and Asset manager specialising in small industrial estates with offices throughout Europe, including three in Germany. Mark was asked to join Lloyds Banking Group as the head of asset management within the real estate "bad bank", where he was responsible for setting up a number of initiatives to optimise recovery proceeds from defaulted loans. He is currently employed by Invesco Asset Management Limited as their advisor to the Real Estate lending team. He holds no further non-executive directorship positions.

Senior independent director

Caroline Britton is a chartered accountant and was an audit partner at Deloitte LLP from April 2000 to May 2018, having qualified with its predecessor firm Touche Ross & Co. In addition to providing audit and advisory services in the financial services sector, Caroline ran the FTSE 250 Deloitte NextGen CFO programme. Caroline is a non-executive director of Moneysupermarket.com Group PLC and

Revolut Limited, at both of which she chairs the audit committees. Caroline will become the Chair of the Company's Audit Committee at the close of the Annual General Meeting to be held on 31 July 2020.

Independent non-executive director

Kelly Cleveland is a chartered accountant, having qualified in New Zealand in 2001 at PriceWaterhouseCoopers, and has worked in real estate in the UK since 2004. She is currently Head of Investment for British Land Co PLC, the FTSE100 REIT, where she has worked for more than nine years, including roles in strategy and corporate finance. Kelly previously held roles in corporate finance at the Grosvenor Group and as a financial analyst at Burberry Group PLC.

Independent non-executive director

Joanne Kenrick has had a commercial marketing career spanning over 30 years and has extensive listed, private and charitable board experience. For five years until 2015 she was the marketing and digital director for Homebase, prior to which she was chief executive officer of Start, where she established and oversaw HRH the Prince of Wales's public-facing initiative for a more sustainable future. Joanne's former roles include marketing and customer proposition director for B&Q and marketing director at Camelot Group plc. She was previously a non-executive director of Principality Building Society for six years, during which time she was also a member of the audit and conduct risk committees. Joanne has a degree in law and started her career at Mars Confectionery and PepsiCo.

Joanne is currently a non-executive director and remuneration committee chair for both Welsh Water and Coventry Building Society, as well as being deputy chair and the senior independent director for the latter; and chair of Switching Services Participant Committee and of PayM for Pay.uk. She is also chair of trustees of the charity Make Some Noise.

Market

Geographically, the company is focused primarily on the German and UK markets.

German market

Germany remains comfortably the largest economy in the European Union and the fourth largest in the world after the United States, China and Japan. It has maintained its reputation as an industrial powerhouse with a strong export-focused economy characterised by low unemployment. Relative to many other European economies, Germany performed well through the Covid-19 crisis and, notwithstanding the impact of recent events in Ukraine and related economic effects, is projected to grow strongly in the coming years and beyond. Germany's GDP increased by 1.8% in 2022, according to the OECD.

Commercial real estate transaction volumes in Germany in 2021 were €64.1 billion, according to BNP Paribas; that is the second highest year recorded, which demonstrates remarkable underlying resilience given the disruptive factors the market faced in 2021 such as supply bottlenecks for primary products, the rise in inflation and the ongoing challenges presented by Covid-19 and the conflict in Ukraine. Once again, the majority of sales volume was registered in and around Germany's seven major cities (Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart), totalling €37.1 billion, exceeding the prior year by 14%. Unsurprisingly Berlin leads the way with €11.2 billion invested, the second-highest total on record and up 25% on the previous year. Munich follows with €7.7 billion recorded, up 53% on the previous year. Frankfurt follows in third place with just under €6.7 billion, roughly similar to the previous year. Cologne recorded the strongest growth, up 182% to €3.8 billion. In contrast, there were declines on the previous year's performance in Hamburg at €3.1 billion (-43%) and Düsseldorf at €2.4 billion (-34%). Looking at investment types, offices remained the top performer, with approximately €30.7 billion of investments; around 48% of transaction volume is attributable to this class. Logistics properties followed with a volume of just under €9.9 billion; this is an increase of almost 25% on 2020, setting an all-time high. Foreign investors were responsible for around €24.8 billion of capital investment, around 39% of total investment levels – at a similar level to last year.

Looking closely at economic data examining Germany's so-called "Unternehmensimmobilien" – a distinct asset class of German multi-use and multi-let commercial properties, that is home to the heart of the Germany economy – we can see a strong recovery in the sector in the first half of 2021. A new record was set in H1 with an investment volume of around €2.9 billion, an increase of 87% compared with the previous half year. Some of this activity was likely due to a "catch-up effect" from the previous year's disruption. Looking at the different categories that make up the Unternehmensimmobilien, we can see that business parks are the most in-demand category, accounting for a significant 48% of total volume. Light manufacturing properties are the second most in-demand category, at 23%; notably, this is the only property type among the Unternehmensimmobilien that can point to a volume of take-up in the first half of the year that is above the average of the past five years, exceeding it by around 16%. Demand for warehouse properties was much lower, at just 4,000 sqm. Looking at specific sectors more closely we can see that manufacturing remained an extremely important driver of demand for space, demonstrating the robustness of the sector. Accounting for 30% of total take-up, exceeding its average by around 9%. Some clear regional trends emerged in the first half of 2021. Munich and the surrounding area accounted for one-third of the total transaction volume with €934 million. The Rhine-Ruhr conurbation follows, accounting for €378 million in volume, and the West region registered the third highest volume at €375 million. The Unternehmensimmobilien has been resilient as an asset class during past major economic events and recessions and appears to have maintained resilience through Covid-19 too. That is due to multiple factors, such as the flexibility and diversity inbuilt within multi-tenanted business parks, the tendency for companies engaged in production and manufacturing to respond to economic contractions by reducing output rather than space and the depth of the Mittelstand market – those factors all contribute to the ongoing growth and stability of the asset class.

UK market

The United Kingdom's GDP increased by 4.0% in 2022, according to the OECD. Nevertheless, the prospects for growth in the commercial real estate sector and in the UK regions remain uncertain despite supply constraints due to a lack of land and increased building costs driving rental growth. Looking back to 2021, quarter four of 2021 saw commercial property in the United Kingdom record its best single-quarter total return since quarter four of 2009. A quarterly return of 6.3% drove the rolling annual total return of the MSCI UK Quarterly Property Index to 16.5%, a six-year-high. However, while previous cyclical upswings saw the main property sectors move in relative unison, the current cycle is largely driven by the strength of industrial property. Of the 16.5% annual index return, 12.9% could be attributed to the industrial sector courtesy of a 36.4% total return. Yield compression was the main driver of industrial outperformance as its equivalent yield effectively halved in ten years as it strengthened to 4.2% at the end of 2021 from 8.4% in quarter four of 2011. The combined impact of a strengthening yield and rental growth saw industrial become the largest sector by value in the Index at 35%, up 2.3x over ten years. In its 2022 cross-sector outlook published prior to the escalation of events in Ukraine and agnostic of the related economic impact, Savills also noted that regional office markets saw upward pressure on pricing in 2021, and it expects that to continue into 2022 and beyond, noting that some regional office markets look undersupplied.

Financials

Most recent half-year results

On 21st November 2022, the company announced its interim results for the period ended September 30, 2022.

During the six-month period, revenue increased by 47.7% to €130.6 million (H1 FY2022: €88.4 million), mainly driven by higher rental and service charges. In Germany, like-for-like annualised rent roll improved by 2.4% to €115.2 million (H1 FY2022: €112.5 million), and in the United Kingdom, by 4.1% to €46.5 million (H1 FY2022: €44.7 million). Profit before tax decreased by 3% to €75.7 million (H1 FY2022: €78.2 million), primarily due to lower revaluation gains and higher costs and expenses.

In the period, net current assets increased by 22% to €67 million (H2 FY2022: €55 million), and net asset value improved by 1.8% to €1,213 million (H2 FY2022: €1,191 million). Cash improved by around €9 million to €162 million (H2 FY2022: €151 million) and debt decreased by €3 million to €993 million (H2 FY2022: €996 million). The value of the company's investment property increased by 0.3% to €2,081.4 million (H2 FY2022: €2,074.9 million).

Cash flows from operating activities increased by 37.5% to €48.1 million (H1 FY2022: €35.0 million), and mainly due to the disposal of properties, cash flows from investing activities were negligible (H1 FY2022: negative €107.5 million). The company's German and UK portfolios saw a respective increase of €20.3 million and £6.3 million, representing a 1.8% and 2.1% like-for-like valuation growth. With no new loans taken during the period, cash flows from financing activities moved to a negative €36.5 million (H1 FY2022: positive €194 million). The total dividend per share for the period increased by 32.4% to 2.79 cents (H1 FY2022: 2.04 cents).

Funds From Operations (FFO) increased by 47.0% to €48.5 million (H2 FY2022: €33.0 million).

The company has prioritised improving its debt ratios and building up its cash reserves, and, in line with that, during the period, net loan to value (LTV), which reduces the loan balance by free cash (excluding restricted cash balances) in its calculation, decreased by 0.6 percentage points to 41.0% (FY2022: 41.6%) and the interest cover improved to 8.1x, from 7.3x a year earlier. We note that Sirius' interest coverage is much better than its Bloomberg-selected peers (8.1x vs. 3.7x), suggesting that the company is in a materially better financial position than its peers to withstand any macroeconomic shocks. Further information about the peers can be found in the valuation section of this report.

The company added that it's fully committed to continuing to reduce its net LTV to be well within 40% or below in the near term and that it continues to expect to trade in line with consensus and management expectations for the full year.

Most recent full-year results

On 13th June 2022, the company announced its full-year results for the year ended 31st March 2022.

During the 12-month period, revenue increased by 27% to €210 million (FY2021: €165 million), and the gain on revaluation of investment properties jumped by 41% to €210 million (FY2021: €165 million); however, mainly due to an impairment charge, higher administrative expenses and interest expenses, the net profit remained more-or-less unchanged at €147 million (FY 2021: €147 million).

In terms of the financial position of the company, the net current assets increased by more than 3x to €55 million (FY 2021: €17 million), and the net asset value (NAV) rose by 28% to €1.19 billion (FY 2021: €0.93 billion).

Cash flows from operating activities increased by 15% to €82 million (FY2021: €71 million), and mainly due to the acquisition of a subsidiary and purchase of investment properties, cash flows used in investing activities increased by almost 6x to €430 million (FY2021: €74 million). Cash flows from financing activities swung to €431 million (FY2021: negative €54 million), driven by the proceeds of loans and the issue of share capital. The total dividend per share for the year increased by 16% to 4.41 cents (FY2021: 3.80%).

Funds From Operations (FFO) increased by 22.5% to €74.6 million (FY2021: €60.9 million).

Sirius profit and loss

	Year ended 31 March 2021 (€000)	Year ended 31 March 2022 (€000)
Revenue	165,361	210,182
Direct costs	-71,541	-87,689
Net operating income	**93,820**	**122,493**
Gain on revaluation of investment properties	99,585	140,884
(Loss)/gain on disposal of properties	54	-623
Recoveries from prior disposals of subsidiaries	65	94
Administrative expenses	-27,823	-40,718
Goodwill impairment	-	-40,906
Share of profit of associates	4,977	6,940
Operating profit	**170,678**	**188,164**
Finance income	2,712	2,986
Finance expense	-9,869	-23,219
Change in fair value of derivative financial instruments	136	996
Net finance costs	**-7,021**	**-19,237**
Profit before tax	**163,657**	**168,927**
Taxation	-16,097	-20,935
Profit for the year after tax	**147,560**	**147,992**
Profit attributable to:		
Owners of the Company	147,451	147,873
Non-controlling interest	109	119
	147,560	147,992
Earnings per share		
Basic earnings per share	14.16c	13.48c
Diluted earnings per share	13.96c	13.29c

Source: Sirius and Proactive Investors.

Sirius balance sheet

	Year ended 31 March 2021 (€000)	Year ended 31 March 2022 (€000)
Non-current assets		
Investment properties	1,362,192	2,100,004
Plant and equipment	2,682	5,492
Intangible assets	6,568	4,283
Right of use assets	1,919	14,996
Other non-current financial assets	44,960	48,330
Investment in associates	17,202	24,142
Total non-current assets	**1,435,523**	**2,197,247**
Current assets		
Trade and other receivables	18,731	24,571
Derivative financial instruments	70	329
Cash and cash equivalents	65,674	150,966
Total current assets	**84,475**	**175,866**
Assets held for sale	-	13,750
Total assets	**1,519,998**	**2,386,863**
Current liabilities		
Trade and other payables	-50,527	-89,335
Interest-bearing loans and borrowings	-9,114	-19,630
Lease liabilities	-5,857	-1,090
Current tax liabilities	-2,063	-10,423
Derivative financial instruments	-414	-
Total current liabilities	**-67,975**	**-120,478**
Non-current liabilities		
Interest-bearing loans and borrowings	-458,940	-961,863
Lease liabilities	-9,130	-37,571
Derivative financial instruments	-797	-
Deferred tax liabilities	-56,331	-75,893
Total non-current liabilities	**-525,198**	**-1,075,327**
Total liabilities	**-593,173**	**-1,195,805**
Net assets	**926,825**	**1,191,058**
Equity		
Issued share capital	-	-
Other distributable reserve	449,051	570,369
Own shares held	-2,903	-6,274
Foreign currency translation reserve	-	-1,701
Retained earnings	480,385	628,258
Total equity attributable to the owners of the Company	**926,533**	**1,190,652**
Non-controlling interest	292	406
Total equity	**926,825**	**1,191,058**

Source: Sirius and Proactive Investors.

Sirius cash flow statement

	Year ended 31 March 2021 (€000)	Year ended 31 March 2022 (€000)
Operating activities		
Profit for the year after tax	147,560	147,992
Taxation	16,097	20,935
Profit for the year before tax	163,657	168,927
Loss/(gain) on disposal of properties	-54	623
Recoveries from prior disposals of subsidiaries	-65	-94
Net exchange differences	-	-1,975
Share-based payments	3,148	4,173
Gain on revaluation of investment properties	-99,585	-140,884
Change in fair value of derivative financial instruments	-136	-996
Depreciation of property, plant and equipment	669	1,167
Amortisation of intangible assets	897	1,164
Depreciation of right of use assets	521	843
Goodwill impairment	-	40,906
Share of profit of associates	-4,977	-6,940
Finance income	-2,712	-2,986
Finance expense	9,869	23,219
Changes in working capital		
Increase in trade and other receivables	-2,518	-5,196
Increase in trade and other payables	2,913	3,470
Taxation paid	-632	-3,671
Cash flows from operating activities	**70,995**	**81,750**
Investing activities		
Purchase of investment properties	-35,484	-162,844
Prepayments relating to new acquisitions	-	-1,860
Proceeds from loss on control of subsidiaries (net of cash disposed)	65	94
Capital expenditure on investment properties	-31,104	-23,786
Purchase of plant and equipment and intangible assets	-2,718	-3,540
Acquisition of a subsidiary (net of cash acquired)	-	-254,730
Proceeds on disposal of properties (including held for sale)	30	15,297
Increase in loans receivable due from associates	-5,950	-1,124
Interest received	1,627	2,986
Cash flows used in investing activities	**-73,534**	**-429,507**
Financing activities		
Proceeds from issue of share capital	-	159,926
Transaction costs on issue of shares	-	-6,219
Shares purchased	-1,613	-5,545
Payment relating to exercise of share options	-	-3,519

Source: Sirius and Proactive Investors.

Risks

As with any investment, investing in Sirius carries a level of risk. Overall, based on the Sirius' market beta (i.e. 1.016), the degree of risk associated with an investment in Sirius is 'medium'.

Here, to estimate the adjusted beta, we used the iShares MSCI World ETF to represent the market portfolio; and in terms of the time period and frequency of observations, we used five years of monthly data (i.e. 60 observations in total), which is supported by a study and is the most common choice. The beta value in a future period has been found to be on average closer to the mean value of 1.0, and because valuation is forward-looking, it is logical to adjust the raw beta so it more/most accurately predicts a future beta. In addition, here, we have assumed that for an investment to be considered 'medium' risk, it must have a beta value of between 0.5 and 1.5. Further information about the beta ratings can be found in the appendix section of this report.

The key risks that could affect the group's medium-term performance can be found in the table below.

Sirius key risks

Risk area	Principal risk(s)
Financing	Availability and pricing of debt
	Compliance with loan facility covenants
	Availability and pricing of equity capital
	Reputational risk
Valuation	Property inherently difficult to value
	Susceptibility of property market to change in value
Markets	Participation within two geographically diverse markets
	Reliance on specific industries and the SME market
	Reduction in occupancy
Acquisitive growth	Decrease in number of acquisition opportunities coming to market
	Failure to acquire suitable properties with desired returns
Organic growth	Failure to deliver capex investment programmes
	Failure to refuel capex investment programmes
	Failure to achieve targeted returns from investments
Customer	Decline in demand for space
	Significant tenant move-outs or insolvencies
	Exposure to tenants' inability to meet rental and other lease commitments
	Tenant affordability
Regulatory and tax	Non-compliance with tax or regulatory obligations
People	Inability to recruit and retain people with the appropriate skillset to deliver the Group strategy
Systems and data	System failures and loss of data
	Security breaches
	Data protection
Macro-economic	Impact of the Covid-19 pandemic
	Inflationary pressure leading to increased costs
	Interest rate movements impacting the commercial real estate market
	Delays in cash collection and tenant insolvencies
	Energy supply shortages caused by a variety of economic and geopolitical factors
ESG	Unforeseen costs relating to physical and transition risks associated with climate change
	Reputational risk
	Failure to meet shareholder and societal requirements or expectations
	Restricted access to financing market due to higher requirements ("green financing")
Foreign currency	Financial impact of uncontrollable foreign currency fluctuation on earnings and net asset value

Source: Sirius and Proactive Investors.

Valuation

Research suggests that in terms of estimating the expected return of an investment over a period of 12 months or more, the approach that is more accurate is the discounted cash flow approach, so that's the approach that we suggest using here; nevertheless, for completeness purposes, separately, the valuation of the company is also estimated using the relative valuation approach (the valuation based on the relative approach can be found in the appendix of this report). While Sirius has paid a dividend every year since the company's incorporation (in 2002), at the moment, the growth rate of the dividend varies materially; accordingly, we suggest valuing the business using the free cash flow valuation approach (rather than the dividend discount model approach). Nevertheless, for completeness purposes, separately, the valuation of the company is also estimated using the dividend discount model (the valuation based on the dividend discount model can be found in the appendix of this report). We estimate that the expected return on an investment in the company over the next five years is 99%, which equates to an annual return of 15%. In other words, a £100,000 investment in the company is expected to return £199,000 in five years' time. The assumptions used to estimate the return figure can be found in the table below.

Assuming that a suitable return level over five years is 10% per year, then an investment in the company is a 'suitable' one.

Sirius FCF key assumptions

Description	Value	Commentary
How many distinct stage of growth do you want to use?	One stage	For simplicity, here, we have used one stage, in particular the Gordon growth model (GGM).
What is the expected lifespan of the business?	Perpetual	Again, for simplicity, we have assumed that the business continues forever.
What is the expected constant growth rate in free cash flow?	7.50%	Research shows that there's a correlation between GDP growth and the free cash flow (FCF) growth of Real Estate Investment Trusts (REITs), such as Sirius. We note that the gross domestic product (GDP) growth rate in the last 20 years (2001 to 2022) is around 3% per year for the global economy, and around 2.25% for the United Kingdom and 1.95% for Germany. Given that Sirius is leveraged and the size of the leverage, we expect the FCF growth of the business to be much more than the GDP growth of the two countries in which the company operates (i.e. the United Kingdom and Germany).
Which financial forecasts to use?	Proactive Investors	Here, we have used our own forecast. To calculate the company's seven year ahead free cash flow forecast figure (i.e. the relevant forecast figure for our model), we multiplied the free cash flow figure (excluding net debt) of the company's most recent financial year (i.e. 2022) by our estimated constant free cash flow growth rate.
What is the required return on equity?	12.01%	For estimating the required return on equity, we used the Capital Asset Pricing Model (CAPM), which provides an economically grounded and relatively objective procedure for required return estimation, and, therefore, it has been widely used in valuation. The calculation of the required return on equity (and the reasons behind the calculation) can be found in the table below.
What is the euros to pounds foreign exchange conversion rate?	0.89	For simplicity, we have used the rate as of today (1:0.89).
What's the current value of the company?	80.80 pence per share	As at 7th March 2023, the current value of Sirius is 80.80p per share.
Which time period do you want to use to estimate the expected return?	Between now and five years time	Research suggests that following a market crash, the average amount of time it takes for the price of a stock market to return to its pre-crash level (i.e. the recovery period) is at least three years. Accordingly, we suggest that to account for general market cyclicity, it's best to estimate the expected return of the company between now and five years time.

Source: Proactive Investors.

Sensitivity analysis

The main inputs that result in the greatest change in the expected return of the Sirius Real Estate Limited investment are, in order of importance (from highest to lowest):

1. The current free cash flow figure (the default forecast is €58 million);
2. The constant growth rate in free cash flow (the default forecast is 7.50%); and
3. The required return on equity (the default forecast is 12.01%).

The impact of a 10% change in those main inputs to the expected return of the Sirius Real Estate Limited investment is shown in the table below.

Sensitivity Analysis

Main input	10% worse	Unchanged	10% better
The constant growth rate in free cash flow	57%	99%	171%
The required return on equity	62%	99%	150%
The current free cash flow amount	79%	99%	119%

Source: Proactive Investors.

Appendix

Weighted average cost of capital and cost of equity

The cost of equity of Sirius is 12.01%, according to our calculation and assumptions (the calculation and assumptions can be found in the table below).

Sirius cost of equity key assumptions

Description	Value	Commentary
Risk-free rate (%)	3.90%	Here, the risk free rate is the US 30 year treasury bond, and is calculated as at 7th March 2023. Research suggests that for the risk-free rate, it's best to use one that has the same or similar maturity to the estimated remaining lifespan of the company. Here, we have assumed that the estimated lifespan of the company is 50 years, so we have used the longest maturity, which is 30 years.
Beta	1.016	Here, to estimate the adjusted beta, we used the iShares MSCI World ETF to represent the market portfolio; and in terms of the time period and frequency of observations, we used five years of monthly data (i.e. 60 observations in total), which is supported by a study and is the most common choice. The beta value in a future period has been found to be on average closer to the mean value of 1.0, and because valuation is forward-looking, it is logical to adjust the raw beta so it more accurately predicts a future beta.
Equity risk premium (%)	7.98%	Research suggests that for the region of equity risk premium, it's best to use one that is the same or similar to the region of the beta market portfolio. Here, the region of the beta market portfolio is the world/global, so we have used the world/global region for the equity risk premium, and is calculated as at 5th January 2023.
Cost of equity (%)	12.01%	Cost of equity = Risk-free rate + Beta x Equity risk premium.

Source: Proactive Investors.

As at 30th September, the company's cost of debt is 1.3% (and average debt maturity is 3.8 years). With total debt of €992.86 million and total equity of €1,213.57 million, the company's debt-to-equity ratio is 81.8%. In other words, 55% of the company's finance comes from equity financing and 45% from debt financing. Accordingly, the company's weighted average cost of capital (WACC) is 7.31%.

We note that when the company's new debt finance agreement comes into place on 1st November 2023, the company's cost of debt will increase to 1.9% (from 1.3%) and average debt maturity will increase to 5.0 years (from 3.8 years). Consequently, the cost of capital will increase by 28 basis points to 7.59% (from 7.31%).

The company's debt has been rated by Fitch Ratings, one of the three nationally recognised statistical rating organisations (NRSRO) in the United States, as 'BBB', which is considered as investment grade.

Alternative DCF model

As noted earlier in this report, research suggests that in terms of estimating the expected return of an investment over a period of 12-months or more, the approach that is more/most accurate is the absolute valuation approach, in particular the free cash flow method, so that's the method that we suggest using to determine the estimated value of the company (the valuation based on the free cash flow approach can be found in the valuation section of this report); nevertheless, for completeness purposes, separately, the valuation of the company is also estimated using the divided discount valuation approach.

Accordingly, we estimate that the expected return of an investment in Sirius over the next five years is 78%, which equates to an annual return of 12%. In other words, a £100,000 investment in the company is expected to return £178,000 in five years' time. The assumptions used to estimate the return figure can be found in the table below.

Sirius DCF key assumptions

Description	Value	Commentary
How many distinct stage of growth do you want to use?	One stage	For simplicity, here, we have used one stage, in particular the Gordon growth model (GGM).
What is the expected lifespan of the business?	Perpetual	Again, for simplicity, we have assumed that the business continues forever.
What is the expected constant growth rate in free cash flow?	7.50%	Research shows that there's a correlation between GDP growth and the dividend growth of Real Estate Investment Trusts (REITs), such as Sirius. We note that the gross domestic product (GDP) growth rate in the last 20 years (2001 to 2022) is around 3% per year for the global economy, and around 2.25% for the United Kingdom and 1.95% for Germany. Given that Sirius is leveraged and the size of the leverage, we expect the dividend growth of the business to be much more than the GDP growth of the two countries in which the company operates (i.e. the United Kingdom and Germany).
Which financial forecasts to use?	Proactive Investors	Here, we have used our own forecast. To calculate the company's seven year ahead free cash flow forecast figure (i.e. the relevant forecast figure for our model), we multiplied the free cash flow figure (excluding net debt) of the company's most recent financial year (i.e. 2022) by our estimated constant dividend growth rate.
What is the required return on equity?	12.01%	For estimating the required return on equity, we used the Capital Asset Pricing Model (CAPM), which provides an economically grounded and relatively objective procedure for required return estimation, and, therefore, it has been widely used in valuation. The calculation of the required return on equity (and the reasons behind the calculation) can be found in the table below.
What is the euros to pounds foreign exchange conversion rate?	0.89	For simplicity, we have used the rate as of today (1:0.89).
What's the current value of the company?	80.80 pence per share	As at 7th March 2023, the current value of Sirius is 80.80p per share.
Which time period do you want to use to estimate the expected return?	Between now and five years time	Research suggests that following a market crash, the average amount of time it takes for the price of a stock market to return to its pre-crash level (i.e. the recovery period) is at least three years. Accordingly, we suggest that to account for general market cyclicity, it's best to estimate the expected return of the company between now and five years time.

Source: Proactive Investors.

Sensitivity analysis

The three main inputs that result in the greatest change in the expected return of the Sirius investment are, in order of importance (from highest to lowest):

1. The discount rate (the default time-weighted average rate is 12.01%).
2. The growth rate (the default rate is 7.50%); and
3. The current dividend figure (the default forecast is €4.41 per share);

Sensitivity Analysis

Main input	10% worse	Unchanged	10% better
The discount rate	40%	78%	142%
The growth rate	45%	78%	124%
The current dividend figure	60%	78%	95%

Source: Proactive Investors.

Cap rate valuation

A key and common way to value real estate (and not necessarily equity investments, including equity REIT investments) is by dividing the estate's net operating income by the estate's capitalization rate (or cap rate, for short).

The average cap rate for commercial properties can vary widely depending on the location, property type, and market conditions. In the United Kingdom and Germany, the average cap rate for commercial properties is typically in the range of 5-7%.

In the United Kingdom, the average cap rate for commercial properties in prime locations, such as central London, is typically lower, in the range of 3-5%, due to the high demand for real estate in these areas. In secondary markets, the average cap rate may be higher, in the range of 7-9%.

In Germany, the average cap rate for commercial properties, with prime locations such as central Berlin or Munich having lower cap rates, in the range of 4-6%. In other regions, the average cap rate may be higher, in the range of 6-8%.

We note that the current cap rate of Sirius is 6.8%, which is on the high end of the range for commercial properties in the United Kingdom and Germany (5-7%).

In the company's most recent full-year results (i.e. the 12-month period ended 31st March 2022), net operating income (NOI) is €122.5 million. In the company's most recent half-year results (i.e. the 6-month period ended 30th September 2022), net operating income is €73.2 million, which, based on the most recent cap rate (i.e. 6.8%) and portfolio value (i.e. €2,032 million), equates to an annual income of €137.9 million.

We note that a €5 million improvement in NOI (from €137.9 million to €142.9 million) equates to a €74 million improvement in the valuation of the portfolio, all other things being equal. Similarly, a half a percentage point reduction in the cap rate (from 6.8% to 6.3%) equates to a €162 million improvement in the valuation of the portfolio, again, ceteris paribus. We anticipate that any improvements (in the valuation of the portfolio) will translate to an almost identical increase in the valuation of the company. So, for example, if the improvement in the property valuation is €74 million, then the company valuation will also increase by €74 million.

Sirius NOI and Cap rate sensitivity analysis

	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%
125.0	2,273	2,083	1,923	1,786	1,667	1,563
130.0	2,364	2,167	2,000	1,857	1,733	1,625
135.0	2,455	2,250	2,077	1,929	1,800	1,688
140.0	2,545	2,333	2,154	2,000	1,867	1,750
145.0	2,636	2,417	2,231	2,071	1,933	1,813
150.0	2,727	2,500	2,308	2,143	2,000	1,875
150.0	2727	2500	2308	2143	2000	1875

Source: Proactive Investors.

Relative valuation approach

As noted earlier in this report, research suggests that in terms of estimating the expected return of an investment over a period of 12 months or more, the approach that is more/most accurate is the discounted cash flow approach, so that's the approach that we suggest using to determine the estimated value of the company (the valuation based on the discounted cash flow approach can be found in the valuation section of this report); nevertheless, for completeness purposes, separately, the valuation of the company is also estimated using the relative valuation approach.

The FFO does not account for depreciation in properties but rather adds back the depreciation value back to the net income. Furthered, FFO deducts any gains or losses from the sale of assets, since including the transaction would result in discrepancies in the revenues reported in each period. Accordingly, we suggest valuing the company using the Price to Funds From Operations (P/FFO) ratio.

Consequently, we estimate that the expected return on an investment in Sirius Real Estate Limited over the next 12 months is 67%. In other words, a £100,000 investment in the company is expected to return £167,000 within 12 months from now. The assumptions used to estimate the return figure can be found in the table below.

Sirius relative valuation key assumptions

Description	Value	Commentary
Which type of multiple do you want to use?	P/FFO	The FFO does not account for depreciation in properties but rather adds back the depreciation value back to the net income. Furthmore, FFO deducts any gains or losses from the sale of assets, since including the transaction would result in discrepancies in the revenues reported in each period. Accordingly, we suggest valuing the company using the Price to Funds From Operations (P/FFO) ratio.
In regards to the P/FFO multiple, for the FFO figure, which year to you want to use?	Twelve months ahead	Research suggests that when using the relative valuation approach, it's best to use a time period of 12 months or less. Accordingly, for the FFO figure, we suggest using the twelve months ahead.
In regards to the P/FFO multiple, what multiple figure do you want to use?	18x	According to Bloomberg, Sirius Real Estate Limited closest peers trade on a multiple of 18x.
Which financial forecasts to use?	Proactive Investors	Here, we have used our forecasts.
What's the current value of the company?	£946 million	As at 7th March 2023, the current value of Sirius Real Estate Limited is £945.58 million.
Which time period do you want to use to estimate the expected return?	Between now and one year time	Research suggests that when using the relative valuation approach, it's best to estimate the expected return of the company between now and one year time.

Source: Proactive Investors.

Sirius peers

Company name	Primary exchange	Market capitalisation (£m)	BF P/FFO	Yield (%)	Interest cover (x)	Total debt/total capital
Sirius Real Estate Ltd	United Kingdom	979	11.5	4.1%	5.4	46.1%
FastPartner AB	Sweden	1,170	--	2.9%	4.5	48.5%
Cibus Nordic Real Estate AB	Sweden	574	--	6.8%	3.5	61.0%
Shaftesbury PLC	United Kingdom	1,385	33.7	2.5%	2.0	28.0%
Intershop Holding AG	Switzerland	1,011	--	4.1%	-10.3	34.6%
WCM Beteiligungs- und Grundbes	Germany	498	--	2.9%	6.2	2.8%
Metrovacesa SA	Spain	874	25.2	30.9%	N/A	15.8%
Brack Capital Properties NV	Italy	602	--	--	-11.7	42.5%
TLG Immobilien AG	Germany	1,949	23.1	4.7%	4.9	15.3%
GAG Immobilien AG	Germany	1,098	--	0.7%	3.9	71.8%
Gateway Real Estate AG	Germany	499	--	--	0.3	63.5%

Source: Bloomberg and Proactive Investors.

Sensitivity analysis

The two main inputs that result in the greatest change in the expected return of the Sirius investment are, in order of importance (from highest to lowest):

1. The P/FFO multiple (the default multiple is 18x); and
2. The twelve months ahead FFO forecast (the default forecast is €100 million).

Sensitivity Analysis

Main input	10% worse	Unchanged	10% better
The P/FFO multiple	52%	67%	84%
The twelve months ahead FFO forecast	52%	67%	84%

Source: Proactive Investors.

Dividend

Since the company started issuing dividends (i.e. around seven years ago), the median dividend growth rate is 8%, and the mean is 46%. The constant/fixed rate dividend rate is 36%; in other words, if the company had grown its dividend during that period at a rate that is constant (rather than variable), then the rate would be 36%.

Sirius dividends over time

Financial year	Interim (cents)	Full-year (cents)	Total (cents)	Growth
2023	2.70	N/A	2.70	N/A
2022	2.04	2.37	4.41	16.1%
2021	1.82	1.98	3.80	6.4%
2020	1.77	1.80	3.57	6.3%
2019	1.63	1.73	3.36	6.3%
2018	1.56	1.60	3.16	127.3%
2017	1.39	0.00	1.39	-37.4%
2016	0.92	1.30	2.22	188.3%
2015	0.77	0.00	0.77	NA

Source: Sirius and Proactive Investors.

Shareholders

As of today (i.e. 20th February 2023), the total issued share capital of the company is 1,175,863,985 shares. The company does not hold any shares in treasury, and, therefore, the total number of voting rights in the company is also 1,175,863,985 shares. A breakdown of the issued share capital in terms of ownership can be found in the table below. Note, Sirius staff and directors hold 26.4 million shares, which equates to 2.25% of the total share capital.

Sirius major shareholders

Shareholders	Shares (m)	Holding (%)
BlackRock	122.3	10.4%
abrdn	103.7	8.8%
Cohen & Steers	58.8	5.0%
Vanguard Group	55.2	4.7%
Columbia Threadneedle Investments	48.7	4.1%
Public Investment Corporation (PIC)	47.8	4.1%
Louis Norval	29.9	2.5%
SSGA	29.9	2.5%
Lazard Asset Management	25.9	2.2%
Truffle Asset Management	25.3	2.2%
Total Top 10 Shareholders	546.4	46.5%
Total Shares in Circulation	1,175.10	100.0%

Source: Sirius and Proactive Investors.

Risk rating

Information about the beta ratings can be found in table below.

Beta risk rating scale

Rating	Beta
Low	Equal to or below 0.5
Medium	Between 0.5 and 1.5
High	Equal to or above 1.5

Source: Proactive Investors.

References and notes

1. Gross yield is the return on investment before taking into account expenses such as property management, maintenance, insurance, taxes, and other operating costs. It is calculated as the annual rental income divided by the property's purchase price or current market value. For example, if a rental property generates $12,000 per year in rental income and its purchase price is $100,000, the gross yield would be 12,000 / 100,000 = 0.12 or 12%.
2. Net yield takes into account all operating expenses associated with the property. It is calculated as the annual rental income minus all expenses divided by the property's purchase price or market value. For example, if a rental property generates $12,000 per year in rental income, and the expenses associated with the property total $4,000 per year, the net yield would be (12,000 - 4,000) / 100,000 = 0.08 or 8%.
3. Mainly large national/international private and public tenants.
4. Mainly small and medium-sized private and public tenants.
5. Mainly small and medium-sized private and retail tenants.
6. https://www.oecd.org/economy/united-kingdom-economic-snapshot/
7. https://www.commercialsearch.com/news/uk-industrial-propertysurged-in-2021-as-median-total-return-topped-30/.
8. https://www.savills.com/research_articles/255800/323301-0
9. https://www.oecd.org/economy/germany-economic-snapshot/
10. https://www.realestate.bnpparibas.de/en/market-reports/ investment-market/germany-at-a-glance.
11. https://initiative.bulwiengesa.de/unternehmensimmobilien/sites/default/files/2021-11/IUI_Marktbericht15_20211109.pdf
12. Sirius Real Estate Limited.
13. Net operating income is the rental and other income from investment properties generated by a property less directly attributable costs.
14. Capitalization rate is a financial metric used to estimate the potential return on a real estate investment. It is expressed as a percentage and is calculated by dividing the net operating income (NOI) of a property by its market value or purchase price. The formula for cap rate is: Cap Rate = Net Operating Income / Property Value For example, if a property generates $100,000 in NOI and is valued at $1 million, the cap rate would be 10% ($100,000 / $1,000,000). Cap rate is a useful tool for comparing different real estate investment opportunities and evaluating their potential returns. Generally, the higher the cap rate, the better the potential return on investment. However, it's important to consider other factors such as market conditions, location, and the condition of the property before making an investment decision.
15. https://www.newyorkfed.org/mediabrary/media/medialibrary/media/research/staff_reports/research_papers/9809.pdf

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