EDISON

Custodian REIT

Interim results

Strong H122 returns and further DPS growth

Real estate

2 December 2021

NAV total return for Custodian REIT (CREI) in the six months to 30 September (H122) was 11.7%, a combination of increased dividends and property revaluation gains. With EPRA earnings robust and rent collection remaining strong, the quarterly DPS target is increased from Q322. The completed Drum acquisition builds further scale and diversification and with low gearing, CREI is well placed for further accretive growth.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NTA/ share (p)	DPS (p)	P/NTA (x)	Yield (%)
03/20	38.1	28.7	7.0	101.6	6.65	0.95	6.9
03/21	33.1	23.7	5.6	97.6	5.00	0.99	5.2
03/22e	36.0	25.9	6.0	109.0	5.50	0.89	5.7
03/23e	39.4	28.5	6.5	110.9	6.00	0.87	6.2

Note: *EPRA earnings excludes revaluation gains/losses and other exceptional items.

Income and capital growth in H122

H122 EPRA earnings of £12.7m, were well ahead of H121 and in line with H221. H122 EPRA EPS was 3.0p and DPS declared was 2.5p, fully covered by net cash receipts. With rent collection remaining strong (94% in Q222, adjusted for agreed deferrals), the target quarterly DPS has increased by 10% to 1.375p, commencing Q322, resulting in an FY22 target of no less than 5.25p. Assuming rent collection in line with its expectations, the board expects an FY23 DPS of at least 5.5p. H122 EPRA net tangible assets (NTA) per share increased 8.6% to 106p at end-Q222, and while still driven by industrials (49% of CREI's portfolio value at end-Q222), performance is broadening, with retail warehouses (19% by value) showing strong growth. Including DPS paid, the H122 the NAV total return was 11.7%.

Targeting further accretive growth

CREI has increased its portfolio from c £95m at IPO in 2014 to c £565m at end-Q222 and, we estimate, currently c £605m on a pro forma basis including subsequent activity, primarily the completed acquisition of the Drum Income REIT portfolio. CREI seeks further accretive acquisitions while preserving its differentiating focus on smaller lot size assets to drive income returns, taking advantage of opportunities that have arisen due to the pandemic, and driving additional scale efficiencies. The £43.5m Drum acquisition, with a highly complementary portfolio, builds immediate additional scale. With continuing low gearing (we estimate an LTV of c 22% on a pro forma basis) CREI is well placed for further growth. Taking LTV closer to CREI's 25% medium-term target, we assume c £30m of acquisitions in our forecasts, which remain largely unchanged other than a c 11% uplift in forecast EPRA NTA per share.

Valuation: Consistent, income-focused returns

The minimum 5.25p DPS targeted by CREI for FY22 represents an attractive yield of 5.4%, a significant premium to risk-free rates (10-year UK government debt remains below 1%). Our forecasts for DPS growth exceed CREI's minimum targets for both FY22 and FY23. The c 8% discount to H122 EPRA NTA per share compares with an average 5% premium since IPO.

Price	**97p**
Market cap	**£428m**
Net debt (£m) at 30 September 2021	110.8
Net LTV at 30 September 2021	19.6%
Shares in issue	440.9m
Free float	92.0%
Code	CREI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.0	0.0	10.5
Rel (local)	2.7	1.0	(2.4)
52-week high/low		106p	85p

Business description

Custodian REIT is a London Main Market-listed REIT focused on smaller lot-size (<£10m) commercial properties across the UK regions outside London. It is income focused, with a commitment to pay a high but sustainable and covered dividend, with the potential for capital growth.

Next events

FY22 year end	March 2022

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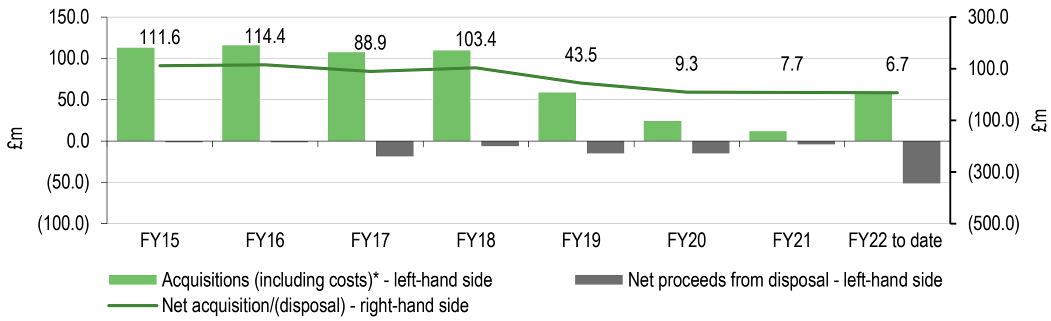
CREI targets further accretive growth

CREI's investment strategy is differentiated from most of its peers by a principal focus on properties with smaller individual values ('lot sizes') of less than £10m at the point of investment. On average, properties of this size provide a yield premium over larger assets, in part the result of a broader range of potential occupiers while attracting less competition from larger institutional investors.

The portfolio has grown from c £95m at IPO in 2014 to c £565m at end-Q222 and, we estimate currently c £605m on a pro forma basis including subsequent activity, primarily the completed acquisition of Drum Income REIT portfolio. Growth has been achieved through selective individual property acquisitions, which remain CREI's preferred route, but also strategic portfolio acquisitions, like Drum. CREI seeks further accretive acquisitions to take advantage of opportunities that have arisen due to the pandemic and build additional scale efficiencies. The latter arise from spreading fixed costs (under upwards pressure across the sector from regulatory and ESG requirements) over a wider income producing asset base. As Exhibit 1 demonstrates, in the three years up to the pandemic, market conditions had made it increasingly difficult for CREI to identify attractive acquisition opportunities that met its investment criteria, but this has now begun to change.

Exhibit 1: Portfolio acquisitions and disposals



Source: Custodian REIT data, Edison Investment Research. Note: *Includes acquisition costs written off.

Including Drum, year to date purchases have been substantially matched by disposals and with low gearing we expect further acquisitions (our estimates allow for c £30m). Activity has been broadly spread across sectors with disposals primarily directed at mature assets, freeing capital for recycling. CREI booked £4.2m of disposal gains in H122 and we estimate additional gains of c £2.4m have been generated in Q322.

Exhibit 2: Year to date purchases and sales

Purchases				Sales (£m)			
Property	Sector	Consideration (£m)	NIY*	Property	Sector	Price (m)	NIY*
Knowsley Business Park, Liverpool	Industrial	4.3	5.6%	Nottingham	High St retail	0.7	N/A
Dundee industrial unit	Industrial	1.9	5.9%	Day nursery	Other	0.6	N/A
Fountain St Manchester	Office	6.3	6.1%	Galashiels	Retail warehouse	4.5	5.7%
Clifton Moor Industrial Estate, York	Industrial	3.0	5.9%	7-asset portfolio	Industrial	32.6	5.9%
DRUM	Portfolio	43.5	6.8%	Stockport car showroom	Other	9.0	6.7%
Total				Stafford car showroom	Other	4.9	5.8%
				Cheltenham	High St retail	0.2	N/A
Total/average		**58.9**	**6.6%**			**52.5**	**6.0%**

Source: Custodian REIT data, Edison Investment Research. Note: *Net initial yield. Blended sales yield excludes vacant/partially let assets (N/A).

Drum portfolio acquisition highly complementary

CREI's agreed acquisition of Drum Income REIT's portfolio (Drum[1]) became effective on 3 November 2021. Consideration for the acquisition was settled by the issue of c 20.2m new CREI shares, calculated on an 'adjusted NAV-for-NAV basis' with each company's 30 June 2021 net asset value (NAV) being adjusted for respective acquisition costs. Drum shareholders received 0.53 new CREI shares for each Drum share, representing an agreed purchase price of £43.5m (before adjustment for lease incentives) or, we estimate, £42.0m after lease incentive costs. This compares with a 30 June valuation of £47.5m (after lease incentive costs) or £47.8m including subsequent revaluation.

Exhibit 3: Drum adjusted net assets at completion

	Drum NAV published	Adjustments				Adjusted Drum NAV
	30 June 2021	Revaluation	Discount	Drum dividend	Drum acq. costs	Completion
Investment property	47.5	0.3	(5.8)			42.0
Trade & other receivables	2.8					2.8
Cash & equivalents	2.4			(0.3)	(0.8)	1.3
Borrowings	(22.7)					(22.7)
Trade & other payables	(2.2)					(2.2)
Deferred income	(1.0)					(1.0)
Net asset value	**26.8**					**20.2**

Source: Custodian REIT data, Edison Investment Research

As a result of the agreed acquisition discount to Drum's portfolio value, we expect CREI to report a Q322 valuation uplift in respect of the assets acquired of c £5.8m. Net of costs we expect a c 1p per share uplift in CREI's EPRA NAV per share.

Exhibit 4: Custodian pro forma NAV as at 30 June 2021

	£m	Number of shares (m)	NAV per share (p)
Custodian NAV as at 30 June 2021	427.7	420.6	101.7
Acquisition costs	(1.0)		
Drum adjusted NAV acquired	20.2		
Expected revaluation gain	5.8		
Pro forma NAV per share as at 30 June 2021	452.7	440.9	102.7

Source: Custodian REIT data, Edison Investment Research

Custodian REIT shareholders represent c 95% of the enlarged share count and Drum shareholders c 5%. The new CREI shares issued to Drum shareholders are entitled to the CREI DPS for the three months to 31 December 2021 (Q322), yet to be declared but targeted by CREI at 1.375p.

Complementary portfolios

CREI and Drum are a good fit, with both companies focusing on smaller lot size regional commercial property assets, and both aiming to provide shareholders with an attractive level of dividend, fully covered by earnings.

Drum had struggled to grow since it was launched in 2015 by Seven Investment Management (7IM). With a market capitalisation of c £20m in early August 2021, before the possibility of an offer by CREI was first announced, it was sub-scale while a significant discount to NAV precluded share issuance. Share dealing liquidity for shareholders was limited by c 69% of its shares being controlled by 7IM on a discretionary basis on behalf of retail investors. As a result of acquisition by CREI, former Drum shareholders benefit from improved liquidity, greater portfolio diversification and increased scale, reflected in lower ongoing charges.

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[1] The acquisition was effected by means of a court-sanctioned scheme of arrangement by which Custodian acquired the company, enabling it to avoid the payment of Stamp Duty Land Tax and maintain Drum's existing revolving credit facility.

With the acquisition structured as a corporate transaction no Stamp Duty Land Tax was payable, representing a saving of c £2.1m compared with an equivalent property transaction. CREI anticipates it will retain the vast majority of the Drum assets acquired given their complementarity to its existing portfolio. There are no integration risks to the transaction as CREI has effectively acquired the Drum portfolio, with no employees and the old management contract terminated.

The Drum portfolio comprises 10 regional properties. Of these, five are offices and three are retail parks, along with an industrial estate and a shopping centre, for which 40% of rents are accounted for by Sainsbury's. Of the 78 tenants, the largest is Skills Development Scotland, accounting for c 14% of rents. EPRA occupancy at acquisition of 86.1% (CREI at end-Q222: 91.6%) demonstrates the income potential from asset management initiatives, also reflected in annual rents of £3.6m compared with an estimated rental value (ERV) of £4.4m.

Consistently positive income-driven returns

Although UK commercial property market returns have historically shown significant cyclicality, the income component has been much less volatile than capital values. CREI's income-focused strategy has consistently generated positive annual total returns. Quarterly returns have been positive in all periods other than the first half of calendar 2020 (fiscal Q420 and Q121) when pandemic uncertainty was at its height. Even during these quarters, dividends continued to be paid (income returns were positive) albeit at a reduced rate. From listing in March 2014 to September 2021 (H222), CREI generated an EPRA NAV total return (without assuming reinvestment of dividends paid) of 52.7%, or a compound annual average return of 5.8% pa. The income return (dividends paid) was 44.7% over the period, c 85% of the total return.

Exhibit 5: EPRA NAV total return history

Year ending 31 March	2015	2016	2017	2018	2019	2020	2021	Q122	Q222	Cumulative since IPO
Opening EPRA NAV per share (p)	98.2	101.3	101.5	103.8	107.3	107.1	101.6	97.6	101.7	98.2
Closing EPRA NAV per share (p)	101.3	101.5	103.8	107.3	107.1	101.6	97.6	101.7	106.0	106.0
Dividends paid per share (p)	3.750	6.350	6.350	6.425	6.525	6.625	4.913	1.750*	1.250**	43.9
EPRA NAV total return	**7.0%**	**6.4%**	**8.5%**	**9.6%**	**5.9%**	**1.0%**	**0.9%**	**6.0%**	**5.5%**	**52.7%**
o/w income returns	3.8%	6.3%	6.3%	6.2%	6.1%	6.2%	4.8%	1.8%	1.2%	44.7%
Compound annual total return										**5.8%**

Source: Custodian REIT data, Edison Investment Research. Note: *Includes fifth interim dividend of 0.5p declared in respect of FY21 and paid in Q122 along with Q420 DPS of 1.25p. **This is the DPS declared in respect of Q122 and paid in Q222. The increased Q222 DPS declared of 1.375p will be paid in Q322.

Returns have been strongly positive in the first two quarters of FY22, driven by increasing property valuations and higher dividends paid. Exhibit 6 shows the development of H122 NAV, which increased by 8.3% to 106.0p. Including DPS paid the H122 NAV total return was 11.7%, an annualised rate of well over 20%. Realised and unrealised property revaluation gains (net of acquisition costs) generated the NAV increase while EPRA earnings of 3.0p covered DPS paid. DPS paid during H122 included both the fourth interim DPS for FY21 (1.25p) and the fifth 'top up' interim DPS declared at year-end (0.5p) as well as the Q122 DPS of 1.25p.

Exhibit 6: Development of H122 net asset value

	Pence per share	£m
Opening net assets	**97.6**	**409.9**
Issue of equity	0.0	0.5
Valuation movements relating to:		
Asset management activity	0.5	2.3
General valuation increases	7.2	30.0
Profit on disposal	1.0	4.2
Net realised and unrealised valuation movement	8.7	36.5
Acquisition costs	(0.3)	(1.1)
EPRA earnings	3.0	12.7
Dividends paid*	(3.0)	(12.6)
Closing net asset value	**106.0**	**445.9**

Source: Custodian REIT. Note: Note: *Includes fifth interim dividend of 0.5p declared in respect of FY21 and paid in Q122 along with Q420 DPS of 1.25p.

Continuing strong rent collection

With rental income and EPRA earnings robust, increasing DPS since the second half of calendar 2020 has been the result of improving rent collection. In H122, 95% of expected cash rental income (net of contractual rent deferrals) was collected. Within this, the collection of rent deferrals from prior periods significantly exceeded deferrals agreed in the period. Outstanding rental income remains the subject of discussion with various tenants. Although some arrears are potentially at risk of non-recovery from CVAs[2] or pre-pack administrations, we would expect a partial recovery of outstanding rents over time.

Exhibit 7: H122 rent collection statistics

	£m	Net of contractual deferrals	Before contractual rent deferrals
Rental income from investment property (IFRS)	19.3		
Lease incentive	(0.7)		
Cash rental income	18.6		100%
Contractual rent deferrals relating to H122	(0.1)		-1%
Contractual rent deferrals from prior periods falling due	0.7		4%
Expected cash rental income, net of contractual rent deferrals	19.2	100%	103%
Outstanding rental income	(1.0)	-5%	-5%
Rental income collected	18.2	95%	98%

Source: Custodian REIT

Balance sheet provisions for outstanding rent receivables reduced by £90k to c £2.9m. Net of write-offs, the income statement charge was £77k, well down on £2.9m in H121 and £0.7m in H221.

Property revaluation driven by industrial but broadening

Over recent months, UK commercial property market returns have continued to be driven by the industrial sector. With limited supply and strong demand, encouraged by the accelerated shift to online purchasing and supply chain concerns, capital values and rents continue to grow strongly. The office sector has shown signs of benefiting from the gradual 'return to the office' and has delivered modest rental growth and relatively flat capital values. The retail and leisure sector has shown a significantly slower decline in rental values, while capital values have begun to improve from the previous steep decline, but performance varies markedly across sub-sectors. Retail

[2] Company Voluntary Arrangements (CVAs) are an arrangement between a corporate borrower and its creditors about the extent and timing of repayments. Administration involves an 'administrator' taking control of the company to effect a recovery, sale, or closure.

warehouse assets have seen good growth in capital values, benefiting from restricted supply, generally free parking and the convenience that is complementary to growth in online sales, both for click-and-collect and customer returns, while high street locations continue to suffer from excess supply.

CREI's portfolio valuation movements reflect these market trends, with its strong weighting of industrials and retail warehouses being particularly beneficial. Asset management initiatives (such as lettings, lease renewals, and regears) added £2.3m.

Exhibit 8: Summary of year-to-date like-for-like valuation movements*

	Valuation (£m)			Valuation movement (£m)			Valuation movement (%)		
	30-Sep-21	30-Jun-21	31-Mar-21	30-Sep-21	30-Jun-21	Half-yearly	30-Sep-21	30-Jun-21	Edison Half-yearly est.*
	Q222	Q122	Q421	Q220	Q120	H122	Q222	Q122	H122
Industrial	270.2	295.1	224.3	8.0	20.2	28.3	3.0%	7.5%	10.7%
Retail warehouse	99.7	103.4	123.4	4.5	3.6	8.1	4.5%	3.6%	8.3%
Other*	84.4	83.7	95.7	2.0	(0.8)	1.2	2.4%	-1.0%	1.4%
High street retail	42.8	37.8	68.6	(1.2)	(4.4)	(5.7)	-3.3%	-10.5%	-13.5%
Office	54.8	55.4	60.7	0.1	0.4	0.4	0.1%	0.7%	0.8%
Total	**551.9**	**575.4**	**572.7**	**13.4**	**19.0**	**32.4**	**2.5%**	**3.4%**	**6.0%**

Source: Custodian REIT data, Edison Investment Research. Note: *There are relatively small differences from reported valuation movements due to changes in portfolio composition. ** Edison half-yearly estimate derived from quarterly like for like movements provided by the company.

Robust interim results

Exhibit 9 shows the H122 results in detail. In particular we highlight:

- EPRA earnings were well up on H121 and at a similar level to H221. Benefiting from property valuation gains, IFRS earnings were strongly ahead of both H121 and H221.
- EPRA occupancy was 91.6% at end-H122, unchanged from H221 and down from 92.9% at end-H121. Gross rental income has been relatively stable across the period. Receivables provisioning and write-offs reduced significantly in H121 although non-rechargeable property costs have increased. We believe this is a function of increased fees associated with a high level of leasing activity in H122 (new letting, lease regears and rent reviews) and a full period effect from the increase in occupancy during H221. The expiry of the temporary rates holiday during the pandemic has further increased the costs associated with void space. Nonetheless, net rental income increased 12.5% versus H121 and was at a similar level to H221.
- An increase in administrative expenses, including higher investment manager fees linked to NAV, was partly offset by lower interest costs resulting from lower average borrowings.

Exhibit 9: Summary of H122 results

£m unless stated otherwise	H122	H121	H122/H121	H221
Gross rental income	19.3	19.4	-0.6%	19.3
Non-rechargeable property costs	(1.6)	(0.9)		(1.1)
Receivables provision/write-off	(0.1)	(2.9)		(0.7)
Net rental income	**17.6**	**15.6**	**12.5%**	**17.5**
Administrative expenses	(2.6)	(2.3)	12.2%	(2.3)
Operating Profit before revaluations	**15.0**	**13.3**	**12.5%**	**15.2**
Net interest	(2.3)	(2.4)		(2.4)
EPRA earnings	**12.7**	**10.9**	**16.2%**	**12.8**
Revaluation of investment properties	32.3	(27.4)		7.8
Costs of acquisitions	(1.1)	(0.1)		(0.6)
Profit on disposal	4.2	0.5		(0.1)
IFRS earnings	**48.1**	**(16.1)**		**19.8**
IFRS EPS (p)	11.4	(3.8)		4.7
EPRA EPS (p)	**3.0**	**2.6**	**16.1%**	**3.0**
DPS (declared) (p)	**2.63**	**2.00**	**31.3%**	**3.00**
EPRA earnings/dividends paid in period (x)	1.00	0.99	1.07	1.3
EPRA EPS/DPS	**1.15**	**1.30**		**1.01**
IFRS NAV & EPRA NTA per share (p)	**106.0**	**95.2**		**97.6**
Investment portfolio (£000s)	565.3	532.3	6.2%	551.9
NTA total return	11.7%	-3.7%		4.9%
Net LTV	19.6%	23.4%		24.9%

Source: Custodian REIT data

Forecast update

Our last forecasts were published in our June Outlook note, and these are revised for CREI's upwardly revised DPS guidance, continued growth in portfolio valuations and NAV, and property transaction activity, most notably the Drum acquisition.

Exhibit 10: Forecast revisions

	Net rental income (£m)			EPRA EPS (p)			DPS (p)			EPRA NTA/share (p)			Net LTV		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (pp)
03/22e	35.6	36.0	1.3	6.1	6.0	-1.4	5.60	5.50	-1.8	98.4	109.0	10.8	25.5%	23.8%	1.8
03/23e	37.2	39.4	6.1	6.5	6.5	0.0	6.00	6.00	0.0	100.2	110.9	10.6	25.2%	23.7%	1.4
03/24e	N/A	40.0	N/A	N/A	6.7	N/A	N/A	6.65	N/A	N/A	112.7	N/A	N/A	23.9%	N/A

Source: Edison Investment Research

There are no material changes to our FY22 and FY23 EPRA earnings and EPS forecasts. We continue to forecast a faster increase in FY22 and FY23 DPS than the minimum guidance given by CREI (at least 5.25p in respect of FY22 and at least 5.5p in respect of FY23). Property valuations have increased at a much stronger rate in H122 than we had allowed for, and we expect further gains, including from the Drum portfolio, acquired at a discount to fair value. We have introduced tentative FY24 forecasts.

Exhibit 11: DPS targets and forecasts

	CREI target minimum	Edison forecast	CREI target minimum	Edison forecast
	Aggregate DPS (p)		Yield	
FY22e	5.25	5.50	5.4%	5.7%
FY23e	5.50	6.00	5.7%	6.2%
FY24e	N/A	6.65	N/A	6.9%

Source: Custodian REIT targets, Edison Investment Research forecasts

Our forecasts for net rental income include the portfolio activity discussed above, including the Drum acquisition, but also assume an additional £30m of acquisitions (at a 6.5% net initial yield) as CREI re-gears its expanded equity base closer towards its 25% medium-term loan to value (LTV) target (with a maximum 35%). The assumed acquisitions add c £2.0m of annualised gross rents, with a full impact in our FY23 forecasts.

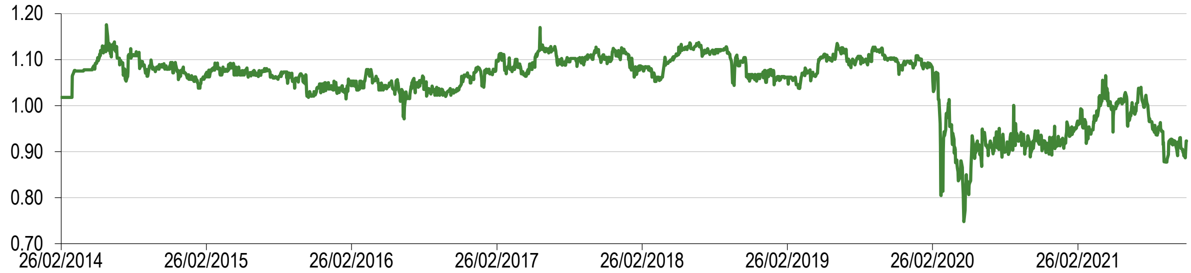
Share performance and valuation

Attractive yield and increasing DPS

The company's minimum aggregate DPS target for FY22 of 5.25p represents a prospective yield of 5.4% while our forecast represents a yield of 5.7%. For FY23, our forecast DPS of 6.0p is ahead of the minimum set by the board of 5.5p and represents an FY23 yield of 6.2%. We forecast further DPS growth in FY24.

Recent share price performance has not kept pace with the growth in NAV and the c 8% discount to Q222 EPRA NTA is well below the average c 5% premium since IPO in March 2014. Until the pandemic, CREI shares had traded consistently above NAV, and regained this level in mid-2021, allowing the company to respond to investor demand with the issue of 550,000 shares at a 5.9% premium to the prevailing adjusted net asset value under its tap facility. More recently a discount has re-emerged that in part follows the wider sector trend. It may also reflect CREI's inability to market its shares during the Drum offer period due to the Takeover Code and perhaps some former Drum shareholders taking advantage of the enhanced liquidity that CREI shares provide. CREI is now free to market its shares once again while we would expect most former Drum shareholders to welcome the increased diversification and lower cost ratio that CREI shares offer, in addition to enhanced liquidity.

Exhibit 12: Price/net asset value history



Source: Refinitiv prices, Custodian REIT net asset value data

In Exhibit 13, we show a summary performance and valuation comparison of CREI and what we consider to be its closest diversified income-oriented peers. CREI's share price performance is below the peer group average over 12 months, in part reflecting the fact that it had been more stable during the pandemic sell-off. For comparative purposes, the valuation data are shown on a trailing basis so do not capture the prospective increase in CREI's DPS. Factors supporting CREI's valuation include its strong commitment to dividend payments (quarterly dividend payments were maintained during the pandemic, albeit at a reduced level), moderate gearing and a focus on smaller lot size properties with a yield premium that has historically supported risk-adjusted income returns.

Exhibit 13: Peer performance and valuation comparison

	Price (p)	Market cap. (£m)	P/NAV (x)	Trailing yield (%)**	Share price performance			
					1 month	3 months	12 months	From 12M high
Ediston Property	76	161	0.85	5.9	-2%	0%	16%	-4%
BMO Real Estate Investments	86	207	0.78	4.1	1%	15%	32%	-4%
BMO Commercial Property Trust	104	833	0.80	4.0	2%	7%	37%	-1%
Picton	100	544	0.95	3.3	4%	2%	31%	-1%
Regional REIT	90	390	0.91	7.0	3%	1%	20%	-3%
Schroder REIT	52	256	0.79	5.2	4%	1%	40%	-3%
Standard Life Investment Property	74	298	0.79	5.1	0%	5%	25%	-4%
UK Commercial Property REIT	77	1001	0.85	3.6	0%	-4%	6%	-9%
Average			**0.84**	**4.9**	**2%**	**3%**	**26%**	**-4%**
Custodian	**97**	**428**	**0.92**	**5.2**	**2%**	**1%**	**10%**	**-9%**
UK property sector index	1,955				4%	-1%	24%	-2%
UK equity market index	4,089				-1%	-1%	12%	-3%

Source: Company data, Refinitiv price data at 1 December 2021. Note: *Based on last reported NAV. **Based on trailing 12-month dividends declared.

Exhibit 14: Financial summary

Year end 31 March, £m	2017	2018	2019	2020	2021	2022e	2023e	2024e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Gross rental income	27.0	34.1	39.1	40.0	38.7	39.1	41.8	42.4
Non-recoverable property costs	(1.2)	(0.9)	(1.5)	(1.5)	(2.0)	(2.9)	(2.4)	(2.4)
Rent receivables provisions/write	0.0	0.0	0.0	(0.3)	(3.6)	(0.2)	0.0	0.0
Net rental income	25.7	33.2	37.6	38.1	33.1	36.0	39.4	40.0
Administrative expenses	(3.6)	(4.4)	(4.9)	(4.8)	(4.6)	(5.2)	(5.6)	(5.7)
Operating Profit before revaluations	22.1	28.8	32.7	33.4	28.5	30.8	33.9	34.3
Revaluation of investment properties	9.0	11.9	(5.5)	(25.9)	(19.6)	44.9	6.3	7.5
Costs of acquisitions	(6.1)	(6.2)	(3.4)	(0.6)	(0.7)	(3.1)	0.0	0.0
Profit/(loss) on disposal	1.6	1.6	4.3	(0.1)	0.4	6.6	0.0	0.0
Operating Profit	26.6	36.1	28.0	6.8	8.6	79.1	40.1	41.8
Net Interest	(2.4)	(3.7)	(4.4)	(4.7)	(4.8)	(4.9)	(5.3)	(5.3)
Profit Before Tax	24.2	32.4	23.6	2.1	3.7	74.3	34.8	36.5
Taxation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax	24.2	32.4	23.6	2.1	3.7	74.3	34.8	36.5
Net revaluation of investment property/costs of acquisition	(2.9)	(5.6)	8.9	26.4	20.3	(41.8)	(6.3)	(7.5)
Gains/(losses) on disposal	(1.6)	(1.6)	(4.3)	0.1	(0.4)	(6.6)	0.0	0.0
EPRA earnings	19.7	25.2	28.5	28.7	23.7	25.9	28.5	29.6
Average Number of Shares Outstanding (m)	298.7	362.4	391.9	409.7	420.1	428.8	440.9	440.9
IFRS EPS (p)	8.10	8.9	6.0	0.5	0.9	17.3	7.9	8.3
EPRA EPS (p)	6.59	6.9	7.3	7.0	5.6	6.0	6.5	6.7
Dividend per share (p)	6.35	6.45	6.55	6.65	5.00	5.50	6.00	6.65
Dividend cover (x)*	1.01	1.06	1.10	1.04	1.13	1.09	1.08	1.01
Ongoing charges ratio (excluding property expenses)	0.32%	0.33%	0.34%	1.11%	1.12%	1.17%	1.15%	1.16%
BALANCE SHEET								
Fixed Assets	418.5	528.9	572.7	559.8	551.9	640.4	651.3	663.4
Investment properties	418.5	528.9	572.7	559.8	551.9	640.4	651.3	663.4
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets	10.3	12.9	6.1	30.7	9.9	24.5	23.7	20.0
Debtors	4.5	7.9	3.7	5.3	6.0	6.0	7.6	7.7
Cash	5.8	5.1	2.5	25.4	3.9	18.5	16.1	12.3
Current Liabilities	(12.6)	(12.8)	(14.2)	(14.9)	(12.8)	(15.3)	(16.7)	(16.8)
Creditors/Deferred income	(12.6)	(12.8)	(14.2)	(14.9)	(12.8)	(15.3)	(16.7)	(16.8)
Short term borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(64.4)	(113.9)	(138.1)	(148.9)	(139.2)	(169.1)	(169.5)	(169.8)
Long term borrowings	(63.8)	(113.4)	(137.5)	(148.3)	(138.6)	(168.6)	(168.9)	(169.2)
Other long term liabilities	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Net Assets	351.9	415.2	426.6	426.8	409.9	480.4	488.8	496.7
NAV/share (p)	103.8	107.3	107.1	101.6	97.6	109.0	110.9	112.7
EPRA NTA/share (p)	103.8	107.3	107.1	101.6	97.6	109.0	110.9	112.7
NAV total return	8.5%	9.6%	5.9%	1.1%	0.9%	17.6%	7.2%	7.5%
CASH FLOW								
Operating Cash Flow	23.1	28.4	36.0	31.0	23.8	31.5	32.1	32.8
Net Interest	(2.2)	(3.5)	(4.2)	(4.4)	(4.5)	(4.6)	(5.0)	(5.0)
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net additions to investment property	(92.1)	(105.9)	(46.2)	(12.2)	(10.1)	3.7	(3.0)	(3.0)
Ordinary dividends paid	(18.5)	(23.0)	(25.5)	(27.0)	(20.6)	(24.5)	(26.5)	(28.6)
Debt drawn/(repaid)	(1.0)	49.4	24.0	10.5	(10.1)	7.0	0.0	0.0
Proceeds from shares issued (net of costs)	91.1	53.9	13.3	25.0	0.0	0.6	0.0	0.0
Other cash flow from financing activities	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0
Net Cash Flow	0.4	(0.7)	(2.6)	22.9	(21.5)	14.5	(2.3)	(3.8)
Opening cash	5.5	5.8	5.1	2.5	25.4	3.9	18.5	16.1
Closing cash	5.8	5.1	2.5	25.4	3.9	18.5	16.1	12.3
Debt as per balance sheet	(63.8)	(113.4)	(137.5)	(148.3)	(138.6)	(168.6)	(168.9)	(169.2)
Unamortised loan arrangement fees	(1.2)	(1.6)	(1.5)	(1.7)	(1.4)	(1.1)	(0.8)	(0.4)
Total debt	(65.0)	(115.0)	(139.0)	(150.0)	(140.0)	(169.7)	(169.7)	(169.7)
Restricted cash	(1.3)	(1.3)	(1.4)	(0.9)	(1.2)	(1.1)	(1.1)	(1.1)
Closing net debt	(60.5)	(111.3)	(137.9)	(125.5)	(137.3)	(152.3)	(154.7)	(158.5)
Net LTV	14.4%	21.0%	24.1%	22.4%	24.9%	23.8%	23.7%	23.9%

Source: Custodian REIT historical data, Edison Investment Research forecasts. Note: *EPRA earnings as a percentage of total dividends paid.

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