

# Regional REIT

FY21 DPS target met, confirming attractive yield

Regional REIT (RGL) has declared a Q421 DPS of 1.7p, taking the total for the year to 6.5p, which we forecast will be fully covered by EPRA earnings reported when the results to 31 December 2021 (FY21) are reported on 29 March. The attractive dividend yield of 7.4% is one of the highest in the UK REIT sector and RGL believes the office sector is poised for recovery.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	NAV/share** (p)	DPS (p)	P/NTA (x)	Yield (%)
12/19	55.0	31.0	7.8	112.6	8.25	0.78	9.4
12/20	53.3	27.9	6.5	98.6	6.40	0.89	7.3
12/21e	56.3	30.3	6.6	96.9	6.50	0.91	7.4
12/22e	64.0	35.1	6.8	98.0	6.70	0.90	7.6

Note: \*EPRA earnings exclude revaluation movements, gains/losses on disposal and other non-recurring items. EPRA EPS is fully diluted. \*\*NAV used is EPRA net tangible assets (NTA) per share. EPS and NTA are fully diluted.

## Strong rent collection and valuation growth

The FY21 DPS of 6.5p (FY20: 6.40p) is in line with RGL's target. The Q4 DPS will be paid as a property income distribution on 8 April 2022. Dividends are supported by continuing strong rent collection. Thus far, the FY21 rent collection rate is 98.6% compared 97.7% at this time last year. FY21 collection comprises 97.31% 'cash collected', monthly rents of 0.4% and agreed collection plans of 1.0%. Driven primarily by acquisitions (net of disposals), the portfolio value increased strongly to £906.1m in FY21 (FY20: £732.4m) but growth also included like-for-like valuation gains of 1.1% (with H2 building on H121 gains of 0.4%). This implies there may be upside potential to our FY21 NAV forecast. Acquisitions included a significant and complementary portfolio of predominantly regional office assets for £236m in Q321, reflecting a net initial yield of 7.8% and reversionary yield of 11.0%, providing attractive immediate income with good growth opportunities.

## RGL believes office sector is poised for recovery

RGL believes the office is an essential aspect of the working infrastructure and the sector is poised for recovery, particularly for good quality regional assets with affordable rents. This is now the focus of investment following significant transaction activity during FY21, rotating the portfolio further towards offices (now c 90% by value) where it identified a mispricing and taking advantage of investor enthusiasm for industrial assets (now reduced to c 5%). Reflecting strong asset management potential, the portfolio acquisition contributed to a reduction in EPRA occupancy at end-FY21 (81.8% vs 85.7% at H1), as did a well-flagged large lease expiry towards the year-end. During FY21 gross rent roll increased substantially with portfolio growth to £72.1m (FY20: £64.2m), with strong upside potential towards an ERV of £94.6m.

## Valuation: High yield and fully covered DPS

RGL continues to offer one of the highest yields in the UK REIT sector. Its FY21 yield of 7.4% is significantly above close peers. Although smaller than the peer average, its discount to our forecast FY21 NAV is 9%.

Portfolio and dividend update

Real estate

24 February 2022

**Price** 88.1p  
**Market cap** £454m

Est. net debt (£m) at 31 December 2021	384.2
Net LTV at 31 December 2021	42.4%
Shares in issue	515.7m
Free float	99%
Code	RGL
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



### Business description

Regional REIT is focused on office assets (more than 90%), located in the regional centres of the UK, highly diversified by property, tenants and the underlying industry exposure of those tenants. It is actively managed and targets a total shareholder return of at least 10% with a strong focus on income.

### Next events

FY21 results release 29 March 2022

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**Exhibit 1: Financial summary**

Year end 31 December (£m)	2018	2019	2020	2021e	2022e	2023e
<b>INCOME STATEMENT</b>						
Rental & other income	62.1	64.4	62.1	66.0	77.0	78.1
Non-recoverable property costs	(7.7)	(9.4)	(8.8)	(9.7)	(13.0)	(12.2)
Net rental & related income	54.4	55.0	53.3	56.3	64.0	65.9
Administrative expenses (excluding performance fees)	(10.5)	(10.9)	(11.3)	(11.3)	(12.3)	(12.4)
Performance fees	(7.0)	0.0	0.0	0.0	0.0	0.0
EBITDA	36.8	44.1	42.0	45.0	51.7	53.5
EPRA cost ratio	40.1%	31.6%	32.4%	28.8%	32.9%	31.5%
EPRA cost ratio excluding performance fee	28.6%	31.6%	32.4%	28.8%	32.9%	31.5%
Gain on disposal of investment properties	23.1	1.7	(1.1)	2.1	0.0	0.0
Change in fair value of investment properties	23.9	(3.5)	(54.8)	(12.6)	4.6	9.3
Change in fair value of right to use asset		(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Operating Profit (before amort. and except.)	83.8	42.0	(14.1)	34.3	56.1	62.6
Net finance expense	(15.7)	(13.7)	(14.0)	(14.5)	(16.4)	(16.4)
Fair value movement in interest rate derivatives & goodwill impairment	(0.1)	(2.0)	(3.1)	2.6	0.0	0.0
Profit Before Tax	67.9	26.3	(31.2)	22.4	39.7	46.2
Tax	(0.6)	0.3	0.2	0.0	0.0	0.0
Profit After Tax (FRS 3)	67.4	26.5	(31.0)	22.4	39.7	46.2
Adjusted for the following:						
Net gain/(loss) on revaluation/disposal of investment properties	(47.0)	1.9	55.9	10.5	(4.6)	(9.3)
Other EPRA adjustments	0.5	2.6	3.0	(2.6)	0.0	0.0
EPRA earnings	20.9	31.0	27.9	30.3	35.1	36.9
Performance fees	7.0	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	27.9	31.0	27.9	30.3	35.1	36.9
Period end number of shares (m)	372.8	431.5	431.5	515.7	515.7	515.7
Fully diluted average number of shares outstanding (m)	372.8	398.9	431.5	457.1	515.7	515.7
IFRS EPS - fully diluted (p)	18.1	6.6	(7.2)	4.9	7.7	9.0
EPRA EPS, fully diluted (p)	5.6	7.8	6.5	6.6	6.8	7.2
Adjusted EPS (p)	7.5	7.8	6.5	6.6	6.8	7.2
Dividend per share (p)	8.05	8.25	6.40	6.50	6.70	7.10
Dividend cover	93.1%	94.2%	101.0%	101.9%	101.5%	100.8%
<b>BALANCE SHEET</b>						
Non-current assets	720.9	806.0	749.5	927.2	943.6	964.7
Investment properties	718.4	787.9	732.4	910.4	927.0	948.3
Other non-current assets	2.5	18.1	17.2	16.8	16.6	16.4
Current Assets	127.0	69.4	101.1	80.9	74.6	65.6
Other current assets	22.2	32.2	33.7	28.9	29.2	29.8
Cash and equivalents	104.8	37.2	67.4	51.9	45.5	35.9
Current Liabilities	(83.7)	(36.2)	(49.1)	(56.2)	(60.8)	(62.2)
Borrowings	(0.4)	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(83.3)	(36.2)	(49.1)	(56.2)	(60.8)	(62.2)
Non-current liabilities	(334.7)	(355.5)	(380.9)	(454.4)	(454.6)	(454.9)
Borrowings	(285.2)	(287.9)	(310.7)	(386.9)	(387.6)	(388.4)
Other non-current liabilities	(49.5)	(67.6)	(70.3)	(67.4)	(67.0)	(66.5)
Net Assets	429.5	483.7	420.6	497.5	502.8	513.3
Derivative interest rate swaps & deferred tax liability	1.0	2.6	5.0	2.5	2.5	2.5
Goodwill	(1.1)	(0.6)	0.0	0.0	0.0	0.0
EPRA net tangible assets	429.4	485.7	425.6	499.9	505.3	515.8
IFRS NAV per share (p)	115.2	112.1	97.5	96.5	97.5	99.5
Fully diluted EPRA NTA per share (p)	115.2	112.6	98.6	96.9	98.0	100.0
<b>CASH FLOW</b>						
Cash (used in)/generated from operations	38.8	26.0	48.0	56.5	56.0	54.3
Net finance expense	(11.9)	(12.2)	(12.5)	(13.2)	(15.4)	(15.4)
Tax paid	(1.5)	(0.8)	0.2	0.0	0.0	0.0
Net cash flow from operations	25.4	13.0	35.7	43.4	40.7	38.9
Net investment in investment properties	100.6	(25.6)	(0.3)	(188.5)	(12.0)	(12.0)
Acquisition of subsidiaries, net of cash acquired	(32.6)	(43.9)	0.0	0.0	0.0	0.0
Other investing activity	0.2	0.2	0.1	0.0	0.0	0.0
Net cash flow from investing activities	68.2	(69.4)	(0.2)	(188.5)	(12.0)	(12.0)
Equity dividends paid	(29.4)	(32.5)	(26.7)	(28.1)	(34.3)	(35.7)
Debt drawn/(repaid) - inc bonds and ZDP	(50.5)	3.5	22.2	75.7	0.0	0.0
Net equity issuance	(1.2)	60.5	0.0	83.1	0.0	0.0
Other financing activity	47.7	(42.7)	(0.8)	(1.0)	(0.8)	(0.8)
Net cash flow from financing activity	(33.4)	(11.2)	(5.3)	129.7	(35.1)	(36.5)
Net Cash Flow	60.2	(67.6)	30.1	(15.5)	(6.4)	(9.6)
Opening cash	44.6	104.8	37.2	67.4	51.9	45.5
Closing cash	104.8	37.2	67.4	51.9	45.5	35.9
Balance sheet debt	(374.6)	(337.1)	(360.1)	(436.5)	(437.4)	(438.3)
Unamortised debt costs	(5.8)	(6.9)	(6.0)	(5.4)	(4.5)	(3.6)
Closing net debt	(275.5)	(306.8)	(298.8)	(390.0)	(396.4)	(406.0)
LTV	38.3%	38.9%	40.8%	42.8%	42.8%	42.8%

Source: Company data, Edison Investment Research

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