EDISON

# Regional REIT

Interim results

## Reinstating estimates after robust H120

Real estate

**COVID-19 impacts were successfully mitigated in H120 with the group's highly diversified portfolio and pro-active, fully integrated asset management approach delivering a resilient performance with strong rent collection and continued quarterly dividend payments, albeit at a reduced level. The management team is experienced, borrowings are secure, and liquidity strong. Uncertainties remain but the targeted fully covered DPS, represents an attractive yield at top end of the broad UK property sector.**

| Year end | Net rental income (£m) | Adjusted earnings (£m) | Adjusted EPS* (p) | EPRA NAV*/ share (p) | DPS (p) | P/NAV (x) | Yield (%) |
|---|---|---|---|---|---|---|---|
| 12/18 | 54.4 | 27.9 | 7.5 | 115.5 | 8.05 | 0.55 | 12.6 |
| 12/19 | 55.0 | 31.0 | 7.8 | 112.7 | 8.25 | 0.57 | 12.9 |
| 12/20e | 53.3 | 27.9 | 6.5 | 100.0 | 6.40 | 0.64 | 10.0 |
| 12/21e | 53.3 | 28.8 | 6.7 | 100.6 | 6.50 | 0.64 | 10.2 |

Note: Adjusted earnings exclude revaluation movements, gains/losses on disposal, and other non-recurring items, and unlike EPRA earnings also exclude performance fees. *Fully diluted.

## Diversified tenant base and robust rent collection

H120 rent collection remained strong with 97.6% of rent invoiced for the period ended 30 June 2020 collected as at 11 September 2020, comprising 94.1% of occupiers which have paid rent, 0.4% of which have agreed to pay monthly, and collection plans agreed with occupiers amounting to a further 3.1%. In part this strong performance benefits from the portfolio focus on offices and industrial asset with a very low retail exposure. However, the collection performance also compares favourably with peers and the market on a sector-adjusted basis. RGL points to the benefits of the integrated asset management approach employed by the asset manager, as well as the diversification of the portfolio, and strength of tenants.

## Our forecasts are consistent with RGL's DPS target

Net rental income of £24.1m compared with £26.0m in H119 and a larger £29.0m in H219, reflecting acquisitions. Compared with H219, the reduction was driven by lower average rent roll and a conservative approach to income recognition. EPRA earnings were £11.0m (H119: £14.2m; H219: £20.0m) or 2.6p per share. After a Q120 DPS of 1.9p, Q220 DPS was 1.5p. RGL targets a similar level for the rest of FY20, or 6.4p for the year, fully covered. Our reinstated FY20 forecasts are consistent with this, based on a broadly flat rent roll in H220 and stronger non-rental income. We have assumed a 2% H220 market-driven decline in property valuations (H120 4.3%), taking EPRA NAV to 100.0p (H120: 102.6p), and we have not assumed opportunistic acquisitions despite continued strong liquidity.

## Valuation: Strong income focus remains

Based on the FY20 DPS target of 6.4p, fully covered, the shares yield 10.0% (or 9.4% based on Q220 DPS of 1.5p annualised). RGL's focus on income continues to position its yield at top end of the broad UK property sector. Meanwhile the shares are trading at a 37% discount to H120 EPRA NAV.

**30 September 2020**

| | |
|---|---|
| **Price** | **64p** |
| **Market cap** | **£276m** |

| | |
|---|---|
| Net debt (£m) at 30 June 2020 | 294.8 |
| Net LTV (%) at 30 June 2020 | 39.7 |
| Shares in issue | 431.5m |
| Free float | 99.0% |
| Code | RGL |
| Primary exchange | LSE |
| Secondary exchange | N/A |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | (16.1) | (11.5) | (37.7) |
| Rel (local) | (14.8) | (7.5) | (22.9) |
| 52-week high/low | | 122.4p | 55.8p |

### Business description

Regional REIT owns a highly diversified commercial property portfolio of predominantly offices and light industrial units located in the regional centres of the UK. It is actively managed and targets a total shareholder return of at least 10% with a strong focus on income.

### Next events

| | |
|---|---|
| Q220 DPS payment | October 2020 |
| Capital markets event | October 2020 |

### Analyst


Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page


***Regional REIT is a research client of Edison Investment Research Limited***

## COVID-19 impact successfully mitigated in H120

Although COVID-19 is having a very material impact on the group, the effects were successfully mitigated in H120 with the group's highly diversified portfolio and pro-active, fully integrated asset management approach delivering a resilient performance with strong rent collection and continued quarterly dividend payments, albeit at a reduced level. The market environment remains challenging, including the economic effects of the pandemic and Brexit uncertainties. However, the board is confident that with secure borrowings, no near-term debt maturities, and a good level of liquidity the group remains sufficiently flexible to execute on its unchanged strategy. This will continue to concentrate on occupier needs and on executing the individual property asset management plans, to deliver both income and capital returns for shareholders over the long term while taking advantage of opportunities as they arise.

### Robust rent collection…

Rent collection remained strong with 97.6% of rent invoiced for the period ended 30 June 2020 collected as at 11 September 2020, comprising 94.1% of occupiers which have paid rent, 0.4% which have agreed to pay monthly, and collection plans agreed with occupiers amounting to a further 3.1%.

**Exhibit 1: Rent collection to 11 September 2020**

| | H120 | | | | H119 |
|---|---|---|---|---|---|
| | Collected | Monthly | Agreed plans | Total | Total |
| Q120 | 96.5% | 0.0% | 2.2% | **98.8%** | 99.1% |
| Q220 | 91.6% | 0.7% | 4.1% | **96.5%** | 99.9% |
| H120 | 94.1% | 0.4% | 3.1% | **97.6%** | 99.4% |

Source: Regional REIT

In part this strong performance benefits from the portfolio focus on offices and industrial assets with a very low exposure to retail. However, the collection performance also compares favourably with peers and the market on a sector adjusted basis. RGL points to the benefits of the integrated asset management approach employed by the external asset manager, as well as the diversification of the portfolio, and strength of tenants.

### …supported by integrated asset management

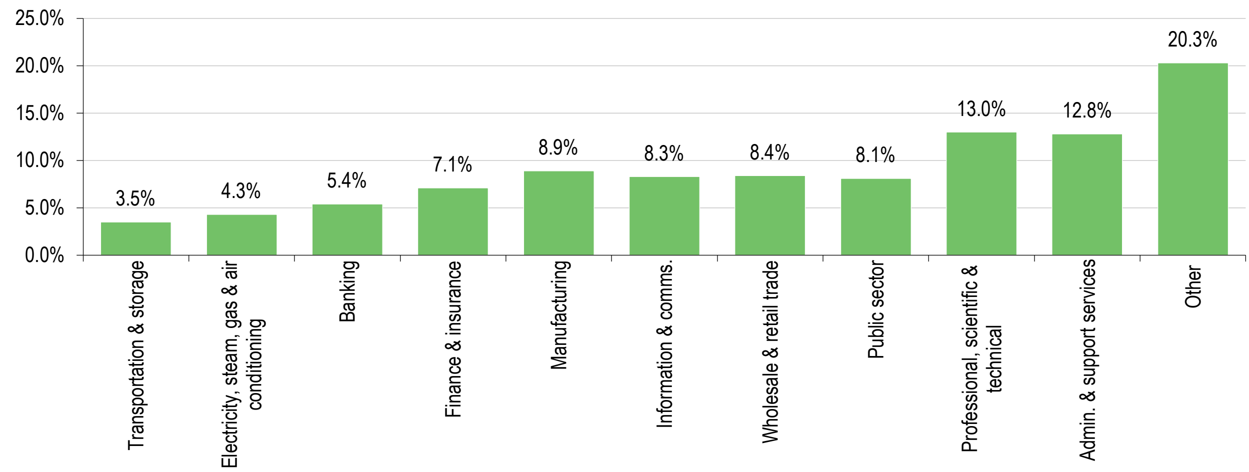
RGL's asset manager, London & Scottish Property Investment Management (LSPIM), responsible for the day-to-day management of the asset and debt portfolios, operates a fully integrated asset management approach from its base in Glasgow with a regional office network in Leeds, Manchester and London. Working with a large team of c 60 individuals, LSPIM is able to stay close to tenants, providing useful support, and is likely to assist the company in optimising occupancy/rental collection during this crisis. The senior management team has worked together for a long time and has experience of managing portfolios for cash in downcycles.

Alongside LSPIM, RGL's investment manager is Toscafund Asset Management (Toscafund), which is responsible for the management functions of the company. Recognising the contribution the asset and investment managers to RGL's performance and the importance of providing continuity of management, especially at this challenging time, it was recently agreed with the company that the management agreements will remain in place beyond the scheduled expiry later in 2020, until November 2023.

## Portfolio diversification mitigates income risks

Portfolio diversification, by geography, property and individual occupiers (as well as the industries in which they operate) is a key element of the company's strategy to mitigate the risks to income that are inherent in the commercial property sector, normally cyclical and now brought rapidly to the fore by COVID-19. As at 30 June 2020, the portfolio comprised 151 properties (the largest accounting for 4.2% of the portfolio), comprising 1,249 individual units, let to 876 tenants (the largest representing 3.6% of rent roll with no tenant more than 4.0%).

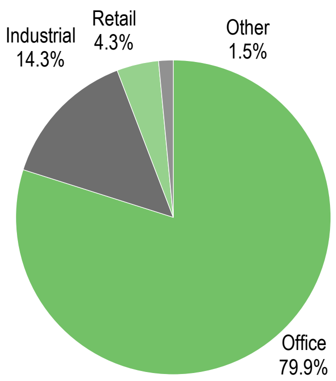
**Exhibit 2: Tenants by standard industry classification (SIC) as a % of rent roll**




Source: Regional REIT data as at 30 June 2020. Note: Other includes: Other service activities; Human health & social work; Construction; Education; Real estate activities; Accommodation & food service activities; Arts, entertainment & recreation; Water supply, sewerage, waste management & remediation; Charities; Public administration & defence; Compulsory social security; Activities of extraterritorial organisations & bodies; Registered societies; Residential.

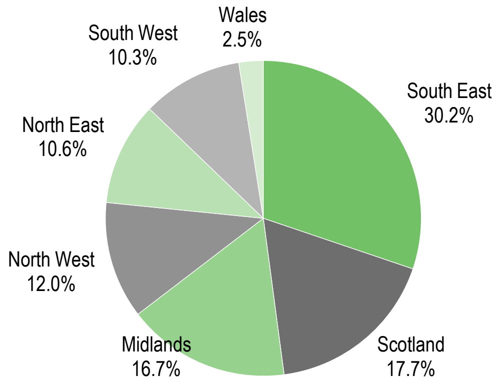
Around 41% of the tenants are multinational or FTSE350 and above sized companies, and c 51% of tenants provide services that are classified as essential in the government's COVID-19 lockdown guidance.

**Exhibit 3: Sector split by value**




Source: Regional REIT data as at 30 June 2020

**Exhibit 4: Regional split by value**




Source: Regional REIT data as at 30 June 2020

Around 94% of the portfolio by value represents office and light industrial units located in the regional centres of the UK outside of the M25 motorway, market segments that were continuing to benefit from increasing occupational demand, rising rents and positive supply-demand fundamentals ahead of the COVID-19 crisis (see below). Exposure to the challenged retail sector is very modest. The portfolio is also well spread geographically reflecting the post-IPO strategy targeted at rebalancing the portfolio away from Scotland towards more prosperous areas of England such as the south-east.

## H120 portfolio developments

The portfolio value at end-H120 was £742.3m, down from £787.9m at end-FY19, including £15.1m of disposals (net of costs) and c £4.5m in capex. The disposals comprised several smaller lot-size vacant properties and generated a £2.0m loss on disposal but mitigated future ongoing operating costs. The unrealised loss on the fair value of investment properties was £33.2m or 4.3% on a like-for-like basis (3.6% for the core office/industrial segments).

The gross contracted rent roll was £62.9m (end-FY19: £64.3m; end-H119: £57.8m) and the EPRA occupancy rate was 89.0% (end-FY19: 89.4%; end-H119: 87.5%). Using the external valuers' assessment of market level rents, had the portfolio been fully occupied the annual rental income would have been £75.2m (end-FY19: £77.2m), an indication of the income potential embedded in the portfolio that the asset manager seeks to realise over time.

Letting activity has continued although at a reduced level, a result of COVID-19 uncertainty and social distancing measures. The asset manager expects a pick-up in activity as more companies return to the office, although this may be slowed by recent COVID-19 infection rates and government guidance. During H120 RGL completed 21 new lettings, totalling c 156k sq ft. When fully occupied these will provide additional gross rental income of c £1.1m pa.

The end-H120 weighted average unexpired lease length (WAULT) to first break for the portfolio was 3.4 years. For industrial assets it was 5.7 years and for offices it was 2.8 years. The relatively shorter office WAULT should provide asset management opportunities for capturing income embedded in the portfolio as leases approach or reach maturity; the office sector accounted for the majority of the upside to estimated full occupancy market rent levels (ERV) at end-H120 with a number of refurbishment projects near to completion.

## Market outlook

Not surprisingly, H120 witnessed a significant slowdown in investment activity in the UK commercial property market and data from Herbert Lambert Smith (LSH) shows Q220 investment activity at a 20-year low. LSH estimates a Q220 investment volume of £3.6bn, 72% lower than Q120, 73% below the five-year average, and leaving the H120 total 18% below H119. Many agents point to the pandemic delaying vendors from bringing properties to the market with the view that pent-up investment demand remains. In support of continuing investment demand, in contrast to the last major economic and commercial property downturn in 2008, interest rates remain low and rents have not risen so far as to encourage widespread speculative development activity.

Letting activity in the office sector has also slowed but data from CBRE indicates continued rent growth and outperformance of regional offices compared with central London. The CBRE Monthly Index shows 'rest of UK' office rental growth of 1.5% in the 12 months to June 2020 and CBRE also estimates a regional office total return of 3.0% over the same period, ahead of the 2.7% central London office return. Occupier demand for industrial properties actually increased in H120, driven by e-commerce as consumers turned more to online delivery during the pandemic.

Going into the pandemic, both the regional office and industrial sectors were benefitting from a good level of occupier demand and generally tight supply, but its enduring impact on this demand-supply balance remains uncertain. There has been much discussion regarding the 'death of the office' and we share the view of the asset manager that this has been much overstated. While remote working has probably received an enduring boost from the pandemic, the case for full-time home working is far from clear. When in the office, it is likely each worker will require an increased amount of space. Well-appointed offices, with good transport links, good IT infrastructure and environmental credentials are likely to retain a premium.

RGL's asset manager points to previous challenges (off-shoring, flexible working, hot desk), the prospects of which were sometimes seen as an existential threat but which the office sector has taken in its stride.

## Summary of H120 results

In this section we provide a brief overview of the H120 results and in the following sections provide details of our reinstated forecasts and an update on valuation.

**Exhibit 5: Summary of H120 financials**

| £m unless stated otherwise | H120 | H119 | | FY19 |
|---|---|---|---|---|
| **EPRA earnings:** | | | | |
| Rental income | 29.4 | 29.9 | -2% | 64.4 |
| Non-recoverable property costs | (5.4) | (3.9) | 37% | (9.4) |
| **Net rental income** | **24.1** | **26.0** | **-7%** | **55.0** |
| Administrative & other expenses | (5.9) | (5.4) | 9% | (10.9) |
| Net finance expense | (7.0) | (6.3) | 12% | (13.2) |
| Change in fair value of right of use asset | (0.1) | (0.1) | | (0.2) |
| **EPRA PBT** | **11.0** | **14.2** | **-22%** | **30.6** |
| Current tax | 0.0 | (0.0) | | 0.4 |
| **EPRA earnings** | **11.0** | **14.2** | **-22%** | **31.0** |
| Gain/(loss) on disposal of investment property | (2.0) | 1.7 | | 1.7 |
| Change in fair value of investment property | (33.2) | (2.9) | | (3.5) |
| Impairment of goodwill | (0.3) | (0.3) | | (0.6) |
| Change in fair value of derivatives | (2.6) | (1.4) | | (1.5) |
| Close out costs on borrowings | | (0.5) | | (0.5) |
| Other tax effects | 0.0 | (0.0) | | (0.1) |
| **IFRS net profit** | **(27.0)** | **10.7** | | **26.5** |
| Basic IFRS EPS (p) | (6.2) | 2.9 | | 6.6 |
| Diluted EPRA EPS (p) | 2.6 | 3.8 | | 7.8 |
| DPS (p) | 3.4 | 3.8 | | 8.3 |
| Diluted EPRA NRV/NAV (p) | 102.6 | 114.3 | | 112.7 |
| Investment properties | 742.3 | 721.7 | | 787.9 |
| Net LTV (%) | 39.7% | 39.9% | | 38.9% |

Source: Regional REIT data

Looking first at underlying EPRA earnings:

- Rental and other property income (eg lease surrender payments, dilapidation receipts) of £29.4m was at a similar level to H119 (£29.9m) but lower than H219 (£34.5m). The reduction in income during the H120 period primarily reflects a decrease in average rent roll during the period; annualised contracted rent roll reduced from £64.3m at end-FY19 to £62.9m at end-H120 and we suspect was lower at times during the period. EPRA occupancy excludes the impact of properties under refurbishment and showed only a modest decline from 89.4% at end-FY19 to 89.0% at end-H120
- Non-recoverable property costs, excluding recoverable service charge income and other similar costs, of £5.4m were above the H119 level of £3.9m but at a similar level to H219.
- Net rental income fell c 7% to £24.1m.
- Higher administrative costs compared with H119 reflect the higher average NAV and the impact on asset and investment manager costs. Other costs were relatively stable despite a c £0.2m increase to the £0.6m in the provision against rent receivables.
- A combination of lower net rental income, primarily driven by higher non-recoverable property costs, and slightly higher expenses, the EPRA cost ratio (including direct vacancy costs) increased to 38.4% in H120 (H119: 31.3%). Excluding direct vacancy costs the increase was much less marked, from 20.1% to 21.4%. Driven by similar factors, the ongoing charge ratio increased to 4.9% (H119: 4.4%)

- Net finance expense increased slightly year-on-year and compared with H219, primarily reflecting higher average borrowing. In March 2020, the company prudentially drew down £30.7m of available borrowing headroom in the face of increased market uncertainty, to ensure ample liquidity.
- EPRA earnings were £11.0m (compared with £14.2m in H119 and £20.0m in H219) and EPRA EPS was 2.6p.

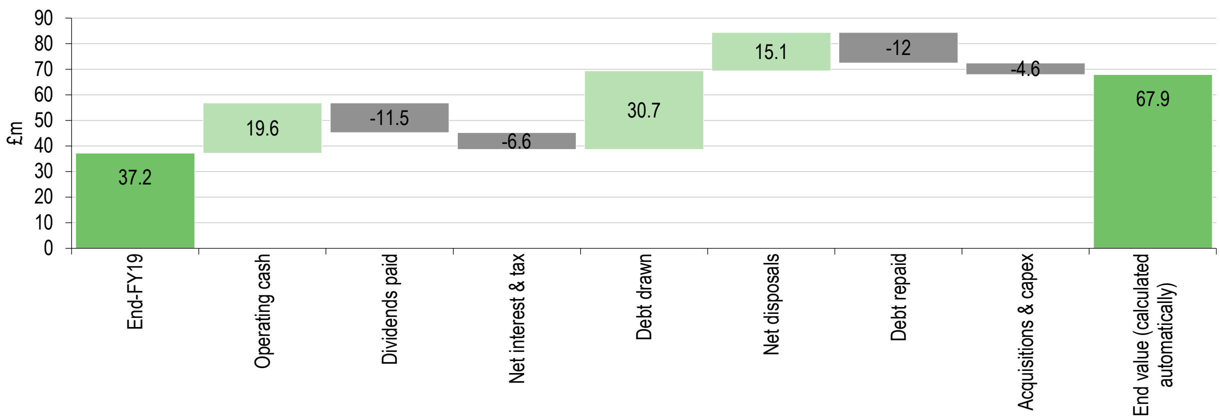
On an IFRS basis the company reported a net loss of £27.0m including:

- The net realised loss of £2.0m on disposals.
- The unrealised loss on the fair value of investment properties of £33.2m.
- A £2.6m unrealised loss on interest rate derivatives, used to hedge interest rate exposure, and driven by the decline in market interest rates.
- Ongoing impairment of goodwill (£0.3m).
- Quarterly dividend payments were maintained during the period, with DPS of 1.9p paid in respect of Q120 and a 1.5p DPS declared in respect of Q220.
- Substantially driven by the change in investment property valuation, EPRA net realisable value per share (NRV), equivalent to the previous EPRA net asset value per share (NAV) reduced to 102.6p (end-FY19: 112.7p).
- The increased debt drawdown was effectively held in cash (£67.9m at end-H120 compared with £37.2m at end-FY19) with no impact on net debt or the loan to value ratio (LTV) which ended the period at 39.7%, in line with the 40% target.

## Secure funding with good liquidity

As a result of the strong rent collection performance, cash flow from operations was more than sufficient to cover financing costs and dividends paid in H120. The c £31m of available funding on the Santander and Royal Bank of Scotland facilities (net of £12m of debt repaid in relation to the disposals) and disposal proceeds (net of capex) drove an increase in cash resources from £37.2m at end-FY19 to £67.9m at end H120.

**Exhibit 6: Positive cash flow in H120**




Source: Regional REIT data

At 30 June, RGL had debt facilities of c £372m (including unamortised debt arrangement costs), comprising secured bank debt facilities and the unsecured £50m nominal retail eligible bond, of which c £363m was drawn and outstanding. The net drawdown of debt was effectively held in cash and had no impact on net debt or the LTV which ended the period at 39.7%, in line with the 40% target despite the reduction in portfolio valuation.

The first debt maturity is almost four years away, in June 2024, and the weighted average term to maturity at end-H120 was 6.8 years. RGL has a target that at least 90% of the loan portfolio is hedged using swaps and interest caps and at end-H120 more than 100% was hedged. Including the costs of hedging the weighted average cost of debt at end-H120 was 3.4%.

**Exhibit 7: Summary of debt portfolio at 30 June 2020 (H120)**

| | Original facility (£m) | Outstanding (£m)* | Maturity | Gross loan to value | Interest terms |
|---|---|---|---|---|---|
| Royal Bank of Scotland | 55.0 | 53.3 | Jun-24 | 45.2% | Libor + 2.15% |
| Scottish Widows & Aviva | 165.0 | 165.0 | Dec-27 | 46.9% | 3.28% fixed |
| Scottish Widows & Aviva | 36.0 | 36.0 | Dec-28 | 41.1% | 3.37% fixed |
| Santander | 65.9 | 58.4 | Jun-29 | 37.0% | Libor + 2.20% |
| **Total secured facilities** | **321.9** | **312.7** | | | |
| Retail Eligible Bond | 50.0 | 50.0 | Aug-24 | N/A | 4.5% fixed |
| **Total facilities** | **371.9** | **362.7** | | | |

Source: Regional REIT. Note: *Outstanding debt includes unamortised loan arrangement fees.

Each of the secured debt facilities has its own distinct covenants, which generally include historic interest cover (tested quarterly), LTV cover (tested annually), and debt service cover (tested quarterly). RGL says that it continues to have substantial headroom against applicable borrowing covenants. The LTV covenants are all in the region of 60%, well above current levels, with the next test due in January 2021 based on the end-FY20 valuations. Group interest cover, excluding amortisation of bank arrangement costs and finance lease interest was a comfortable 2.9x in H120 albeit lower than at end-FY19 (3.6x).

## Reinstating forecasts

Following the update provided with the H120 results, and given the strong rental collection performance in H120, we are reinstating forecasts, suspended temporarily when the lockdown was first introduced.

RGL has indicated that it expects the 1.5p DPS declared in respect of Q220 to be the minimum level that it expects to declare throughout the rest of the year and that it expects dividends to be fully covered by EPRA earnings. This suggests aggregate DPS for the year of at least 6.4p and EPRA earnings of at least £27.6m and our revised forecasts are consistent with this.

Our key forecasting assumptions include:

- We assume no change in annualised contracted rental income in H220 compared with end-H120 (£62.9m). Within this we assume a slight increase in EPRA ERV as some of the current refurbishment projects complete, offset by a slight dip in EPRA occupancy (to 88.5% at end-FY20 compared with 89.0% at end-H120). For FY21 we have assumed no change in EPRA ERV (implicitly assuming no change in market rent levels and that that further refurbishment completions are offset by new projects) or in occupancy.
- We expect stronger reported rental and related income (ie including surrender premiums and dilapidation payments) relative to average contracted rental income in H220 than was the case in H120. The asset manager has indicated that it had taken a prudent approach to non-rental income in H120 and expects an increase. We forecast c £34.0m of rental and other income in H220 compared with £29.4m in H120.
- We expect a reduced run rate of administrative expenses in H220 compared with H120, primarily reflecting the impact of the H120 EPRA NAV on asset and investment management fees as well as lower provisions against receivables following the strong rent collection performance.
- Capital value movements remain particularly uncertain in the current environment. We have assumed a 2% like-for-like decline in H220 and note that a 1% increase/decrease in valuation

compared with that assumed would increase/decrease our end-FY20 EPA NAV per share by 1.8p.

- We assume no net acquisition/disposal activity although we forecast a continuing strong cash position that makes this a possibility if a compelling opportunity were to present itself. We note that in February, ahead of the pandemic, the asset manager reported on a growing near-term pipeline of accretive growth investment opportunities with the potential to further diversify the portfolio by sector, region, and tenant type, while providing asset management potential.

In Exhibit 8 we show a summary of our revised forecasts and a comparison with our last published forecasts from November 2019. Although the pandemic has rendered a comparison of the old and new forecasts somewhat irrelevant, we have provided it to give a sense of the scale of the impact. As we commented in our April update the FY19 results that were subsequently reported included net rental income and underlying earnings were slightly ahead of our forecasts and EPRA NAV per share slightly below, but consistent with the portfolio valuation update included in the late-January 2020 trading update. The reduction in our EPRA earnings and EPS forecasts for FY20 and FY21 is driven by lower net rental income. This in turn results from slower asset growth (we had previously assumed c £20m of yielding acquisitions in H120), lower occupancy (we had previously assumed 90% by end-FY20), slower ERV development, and higher non-recoverable property costs.

**Exhibit 8: Comparison with pre-COVID-19 forecasts**

| | Net rental income (£m) | | | Adj. earnings* (£m) | | | EPRA EPS (p) | | | EPRA NAV (p) | | | DPS (p) | | | Net LTV (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | New | Old | chg. | New | Old | chg. | New | Old | chg. | New | Old | chg. | New | Old | chg. | New | Old | Diff. |
| 12/20e | 53.3 | 61.5 | 13.4% | 27.9 | 36.6 | 23.8% | 6.5 | 8.5 | 23.8% | 100.0 | 115.7 | 13.6% | 6.40 | 8.45 | 24.3% | 40.5% | 39.7% | 0.8% |
| 12/21e | 53.3 | 63.1 | 15.4% | 28.8 | 38.1 | 24.3% | 6.7 | 8.8 | 24.3% | 100.6 | 116.5 | 13.6% | 6.50 | 8.65 | 24.9% | 40.3% | 39.7% | 0.6% |

Source: Edison Investment Research

# Performance and valuation

## Active management targeting income-focused returns

RGL aims to provide an attractive total return to shareholders, with a medium-term target of generating an accounting total return (the change in EPRA NAV per share plus dividends paid out) of at least 10% pa with a strong focus on income supported by the potential for additional capital growth.

The cumulative total return from IPO to the end of FY19 was 42.9%, a compound average annual return of 9.0% and close to the long-term target. Adjusting for the property acquisition costs incurred in growing the portfolio since IPO it would have been above the target. However, with the onset of COVID-19 the accounting return in H120 was a negative 5.0%, driven by the impact of unrealised property valuation losses on NAV, reducing the total return since IPO to 37.3% and the compound average annual return to 7.0%. Dividends paid have represented slightly more than 90% of the return. Our forecasts imply a slightly less negative return for the FY20 year than reported in H120 and a positive 6.7% return in FY21, continuing to be driven by dividends. Although below the company's medium-term target we think this would represent an attractive return in the current low interest rate environment.

**Exhibit 9: NAV total return**

| | 2015* | 2016 | 2017 | 2018 | 2019 | IPO-end-FY19 | H120 | Since IPO | 2020e | 2021e |
|---|---|---|---|---|---|---|---|---|---|---|
| Opening EPRA NAV per share (p) | 100.000 | 107.800 | 106.898 | 105.888 | 115.467 | 100.0 | 112.694 | 100.0 | 112.7 | 100.0 |
| Closing EPRA NAV per share (p) | 107.800 | 106.898 | 105.888 | 115.467 | 112.694 | 112.7 | 102.580 | 102.6 | 100.0 | 100.6 |
| Dividends per share paid (p) | 0.00 | 6.25 | 7.80 | 8.00 | 8.20 | 30.25 | 4.45 | 34.70 | 7.45 | 6.06 |
| NAV total return (%) | 7.8% | 5.0% | 6.4% | 16.6% | 4.7% | 42.9% | -5.0% | 37.3% | -4.6% | 6.7% |
| **Compound annual return (%)** | | | | | | **9.0%** | | **7.0%** | | |

Source: Regional REIT. Note: *55-day period from 6 November 2015.

Based on the Q220 DPS of 1.5p annualised, the shares are yielding 9.4%. Including the higher DPS paid in Q120 we forecast a fully covered aggregate annual DPS of 6.4p for FY20 (a yield of 10.0%) and a fully covered 6.5p in FY21 (a yield of 10.2%). RGL's focus on income continues to position its yield at top end of the broad UK property sector. The high yield is to some extent a reflection of the significant (36%) discount to H120 EPRA NAV at which the shares trade.

In Exhibit 10 we show a valuation and share price performance comparison with a narrow group of peers that are similarly focused on regional commercial property. RGL's share price performance has been similar to the group average over one year, its discount to NAV is similar to the group average, but its yield is significantly higher. Recognising that sector dividend declarations have been in a state of flux, resulting from the pandemic impact on rent collections, we show two yields. The first is based on the last 12-month dividend declarations and on this basis RGL's yield of 12.3% compares with an average 6.1% for peers. The second is based on the most recent DPS declaration annualised, and on this basis RGL yields 9.4% compared with an average 4.7% for peers. Like RGL, many peers have continued to pay quarterly DPS but at a reduced level as a result of the pandemic, at least temporarily. However, in some cases quarterly DPS payments were suspended for a short period. Schroder REIT suspended its DPS for the quarter ending 31 March 2020, which was to be paid in June 2020, and reinstated DPS for the quarter ending 30 June at a reduced rate of 0.38575p per share, to be paid in August 2020. In March 2020, BMO Commercial Property Trust declared a 0.5p monthly DPS in respect of the year ended 31 December 2019, taking the total for the year to 6.0p, but then suspended DPS payments. In August it recommenced monthly DPS, and has declared monthly payments of 0.25p in each of August and September.

**Exhibit 10: Peer comparison**

| | Price (p) | Market cap (£m) | P/NAV* (x) | Yield** (%) | Annualised Yield*** (%) | Share price performance | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 month | 3 months | 12 months | From 12M high |
| Circle Property | 148 | 42 | 0.53 | 4.5 | 2.7 | -6% | -3% | -23% | -37% |
| Custodian | 88 | 368 | 0.91 | 6.8 | 4.3 | 1% | -4% | -26% | -26% |
| Picton | 64 | 352 | 0.70 | 4.7 | 3.9 | -9% | -5% | -27% | -41% |
| Real Estate Investors | 28 | 51 | 0.43 | 10.7 | 7.3 | -2% | -18% | -48% | -51% |
| Schroder REIT | 32 | 163 | 0.55 | 5.7 | 4.8 | 5% | 5% | -43% | -45% |
| Palace Capital | 189 | 87 | 0.52 | 5.2 | 5.3 | 0% | 10% | -32% | -45% |
| UK Commercial Property REIT | 66 | 858 | 0.79 | 4.2 | 2.8 | -1% | 10% | -21% | -28% |
| BMO Commercial Property Trust | 63 | 507 | 0.53 | 3.5 | 4.7 | -8% | 1% | -46% | -48% |
| BMO Real Estate Investments | 53 | 128 | 0.55 | 8.3 | 4.7 | -22% | -5% | -35% | -41% |
| **Average** | | | **0.62** | **6.1** | **4.7** | **-4%** | **-1%** | **-35%** | **-41%** |
| **Regional REIT** | **64** | **274** | **0.62** | **12.3** | **9.4** | **-17%** | **-10%** | **-38%** | **-48%** |
| UK property index | 1,406 | | | 3.1 | | -6% | -4% | -20% | -29% |
| FTSE All-Share Index | 3,286 | | | 3.3 | | -2% | -4% | -19% | -23% |

Source: Refinitiv, company data. Prices as at 30 September 2020. Note: *Last reported EPRA NAV per share. **Trailing 12-month DPS declared. ***last quarterly/monthly DPS declared except Circle which declares half-yearly and based on final DPS for year to 31 March 2020.

Across the broader UK commercial property sector, the pandemic has reinforced the polarisation of share price performance and valuation between perceived low risk (most industrial focused companies and predominantly specialist sectors where assets are let on long lease leases, often with inflation indexation of rents) and mainstream commercial property assets (most notably retail and leisure property) that are perceived to be riskier.

**Exhibit 11: Financial summary**

| Year end 31 December | £m | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e |
|---|---|---|---|---|---|---|---|
| INCOME STATEMENT | | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| Rental & other income | | 43.0 | 52.3 | 62.1 | 64.4 | 63.4 | 62.9 |
| Non-recoverable property costs | | (4.9) | (5.9) | (7.1) | (9.4) | (10.2) | (9.6) |
| Net rental & related income | | 38.1 | 46.4 | 55.0 | 55.0 | 53.3 | 53.3 |
| Administrative expenses (excluding performance fees) | | (8.0) | (7.8) | (10.5) | (10.9) | (11.5) | (11.0) |
| Performance fees | | (0.2) | (1.6) | (7.0) | 0.0 | 0.0 | 0.0 |
| EBITDA | | 29.9 | 37.0 | 37.4 | 44.1 | 41.8 | 42.4 |
| EPRA cost ratio | | N/A | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 |
| EPRA cost ratio excluding performance fee | | N/A | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Gain on disposal of investment properties | | 0.5 | 1.2 | 23.1 | 1.7 | (2.0) | 0.0 |
| Change in fair value of investment properties | | (6.8) | 5.9 | 23.9 | (3.5) | (48.1) | 0.0 |
| Change in fair value of right to use asset | | | | | (0.2) | (0.1) | 0.0 |
| Operating Profit (before amort. and except.) | | 23.7 | 44.1 | 84.4 | 42.0 | (8.4) | 42.4 |
| Net finance expense | | (8.6) | (14.5) | (15.7) | (13.7) | (13.8) | (13.5) |
| Net movement in the fair value of derivative financial investments and impairment of goodwill | | (1.7) | (0.3) | (0.1) | (2.0) | (3.1) | 0.0 |
| Profit Before Tax (norm) | | 13.4 | 29.3 | 68.6 | 26.3 | (25.3) | 28.8 |
| Tax | | 0.0 | (1.6) | (0.6) | 0.3 | 0.1 | 0.0 |
| Profit After Tax (FRS 3) | | 13.4 | 27.6 | 68.0 | 26.5 | (25.2) | 28.8 |
| Adjusted for the following: | | | | | | | |
| Net gain/(loss) on revaluation/disposal of investment properties | | 6.2 | (7.1) | (47.0) | 1.9 | 50.0 | 0.0 |
| Net movement in the fair value of derivative financial investments | | 0.9 | (0.4) | (0.5) | 1.5 | 2.6 | 0.0 |
| Other EPRA adjustments including deferred tax adjustment | | 0.6 | 3.9 | 0.4 | 1.1 | 0.5 | 0.0 |
| EPRA earnings | | 21.1 | 24.0 | 20.9 | 31.0 | 27.9 | 28.8 |
| Performance fees | | 0.2 | 1.6 | 7.0 | 0.0 | 0.0 | 0.0 |
| Adjusted earnings | | 21.3 | 25.6 | 27.9 | 31.0 | 27.9 | 28.8 |
| Period end number of shares (m) | | 274.2 | 372.8 | 372.8 | 431.5 | 431.5 | 431.5 |
| Fully diluted average number of shares outstanding (m) | | 274.3 | 297.7 | 372.8 | 398.9 | 431.5 | 431.5 |
| IFRS EPS - fully diluted (p) | | 4.9 | 9.1 | 18.1 | 6.6 | (5.8) | 6.7 |
| EPS - normalised (p) | | 7.8 | 8.6 | 7.5 | 7.8 | 6.5 | 6.7 |
| EPRA EPS, fully diluted (p) | | 7.7 | 8.1 | 5.6 | 7.8 | 6.5 | 6.7 |
| Dividend per share (p) | | 7.65 | 7.85 | 8.05 | 8.25 | 6.40 | 6.50 |
| Dividend cover | | 101.6% | 109.7% | 93.1% | 94.2% | 101.0% | 102.8% |
| **BALANCE SHEET** | | | | | | | |
| Non-current assets | | 506.4 | 740.9 | 720.9 | 806.0 | 747.7 | 753.5 |
| Investment properties | | 502.4 | 737.3 | 718.4 | 787.9 | 730.5 | 736.5 |
| Other non-current assets | | 4.0 | 3.6 | 2.5 | 18.1 | 17.3 | 17.1 |
| Current Assets | | 27.6 | 66.6 | 127.0 | 69.4 | 100.2 | 92.9 |
| Other current assets | | 11.4 | 21.9 | 22.2 | 32.2 | 32.9 | 27.1 |
| Cash and equivalents | | 16.2 | 44.6 | 104.8 | 37.2 | 67.2 | 65.9 |
| Current Liabilities | | (23.3) | (42.6) | (83.7) | (36.2) | (44.3) | (40.1) |
| Borrowings | | 0.0 | (0.4) | (0.4) | 0.0 | 0.0 | 0.0 |
| Other current liabilities | | (23.3) | (42.2) | (83.3) | (36.2) | (44.3) | (40.1) |
| Non-current liabilities | | (219.0) | (372.0) | (334.7) | (355.5) | (377.2) | (377.3) |
| Borrowings | | (217.4) | (371.2) | (285.2) | (287.9) | (306.9) | (306.9) |
| Other non-current liabilities | | (1.5) | (0.8) | (49.5) | (67.6) | (70.3) | (70.4) |
| Net Assets | | 291.7 | 392.9 | 429.5 | 483.7 | 426.4 | 429.0 |
| Derivative interest rate swaps & deferred tax liability | | 1.5 | 2.8 | 1.0 | 2.6 | 5.2 | 5.2 |
| EPRA net assets | | 293.2 | 395.7 | 430.5 | 486.3 | 431.5 | 434.2 |
| IFRS NAV per share (p) | | 106.4 | 105.4 | 115.2 | 112.1 | 98.8 | 99.4 |
| Fully diluted EPRA NAV per share (p) | | 106.9 | 105.9 | 115.5 | 112.7 | 100.0 | 100.6 |
| **CASH FLOW** | | | | | | | |
| Cash (used in)/generated from operations | | 31.4 | 40.3 | 38.8 | 26.0 | 41.6 | 44.2 |
| Net finance expense | | (6.6) | (9.2) | (11.9) | (12.7) | (12.9) | (12.6) |
| Tax paid | | (1.7) | (0.2) | (1.5) | (0.8) | 0.0 | 0.0 |
| Net cash flow from operations | | 23.1 | 30.8 | 25.4 | 12.4 | 28.7 | 31.6 |
| Net investment in investment properties | | (99.3) | (8.3) | 100.6 | (25.6) | 7.4 | (6.0) |
| Acquisition of subsidiaries, net of cash acquired | | (5.6) | (51.9) | (32.6) | (43.9) | 0.0 | 0.0 |
| Other investing activity | | 0.1 | 0.0 | 0.2 | 0.2 | 0.1 | 0.0 |
| Net cash flow from investing activities | | (104.8) | (60.1) | 68.2 | (69.4) | 7.5 | (6.0) |
| Equity dividends paid | | (15.7) | (23.3) | (29.4) | (32.5) | (24.5) | (26.1) |
| Debt drawn/(repaid) - inc bonds and ZDP | | 91.4 | 13.9 | (50.5) | 3.5 | 18.7 | 0.0 |
| Net equity issuance | | 0.0 | 71.3 | (1.2) | 60.5 | 0.0 | 0.0 |
| Other financing activity | | (1.7) | (4.2) | 47.7 | (42.1) | (0.5) | (0.8) |
| Net cash flow from financing activity | | 74.0 | 57.7 | (33.4) | (10.6) | (6.3) | (27.0) |
| Net Cash Flow | | (7.8) | 28.4 | 60.2 | (67.6) | 30.0 | (1.4) |
| Opening cash | | 24.0 | 16.2 | 44.6 | 104.8 | 37.2 | 67.2 |
| Closing cash | | 16.2 | 44.6 | 104.8 | 37.2 | 67.2 | 65.9 |
| Balance sheet debt | | (217.4) | (371.6) | (374.6) | (337.1) | (356.4) | (356.5) |
| Unamortised debt costs | | (2.6) | (4.8) | (5.8) | (6.9) | (6.4) | (6.2) |
| Closing net debt | | (203.9) | (331.8) | (275.5) | (306.8) | (295.5) | (296.9) |
| LTV | | 40.6% | 45.0% | 38.3% | 38.9% | 40.5% | 40.3% |

Source: Regional REIT historical data, Edison Investment Research forecasts

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia