

# Picton Property Income

Delivering income while investing for growth

Interim results

Real estate

Against a more uncertain political and economic backdrop, Picton produced a solid performance in H120 with a positive 2.8% NAV total return built off a good property portfolio performance. A significant refurbishment programme dampened income and recurring earnings as expected, but dividend cover remains strong. Portfolio positioning (more than 80% in the well-performing industrial and office sectors), moderate gearing and significant potential to increase income by leasing refurbished space at completion are positive indicators for future performance.

Year end	Net property income (£m)	EPRA earnings (£m)	EPRA EPS* (p)	DPS (p)	EPRA NAV/ share (p)	P/NAV (x)	Yield (%)
03/18	38.4	22.6	4.2	3.43	90	1.02	3.7
03/19	38.3	22.9	4.3	3.50	93	0.99	3.8
03/20e	34.8	20.8	3.8	3.50	94	0.98	3.8
03/21e	36.8	23.1	4.2	3.50	95	0.97	3.8

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

## Well covered dividends and positive total return

Picton paid two quarterly dividends of 0.875p during H120, annualising at 3.5p or a yield of 3.8%. Income was lower as expected as the company invests in improving and repositioning properties to enhance future income and capital value potential, and dividends remained well covered at 1.07x. Administrative costs and finance costs were both lower than in the prior year and EPRA earnings were £10.2m or 1.9p per share. A 1.2% like-for-like increase in property valuation supported the 0.9% increase in EPRA NAV per share to 94p and including DPS paid the EPRA NAV total return was 2.8%. Gearing remained moderate (LTV of 24.5%) and has since reduced further with the £18.2m disposal of an office property in Croydon.

## Reversionary potential supports growth prospects

Portfolio performance continues to benefit from an overweight position in industrial and regional office property, where positive returns continue reflect a favourable occupational supply-demand balance, and a significant underweighting of retail and leisure (with no shopping centre exposure), where rents and capital values remain under pressure. Looking forward there is a significant opportunity to grow income and capital values from the current portfolio. The end-H120 estimated market value at full occupancy was £9.4m or 25% above the passing rent of £37.9m. The completion of current refurbishment projects and subsequent leasing represents a significant share of this opportunity. Our forecasts are little changed and reflecting the current level of political and economic uncertainty build in only a part of the income and capital value potential.

## Valuation: Total return with sustainable income focus

Picton offers a current yield of 3.8% and trades at a small discount to its last-reported NAV. Although it has a strong income focus, its dividend yield is lower than the peer average, reflecting a fully covered position that provides scope to reinvest in the portfolio in ways designed to support occupancy and income growth, with the specific goal of enhancing long-term total return.

27 November 2019

**Price** 92.00p  
**Market cap** £504m

Net debt (£m) at 30 September 2019	170.0
Net LTV at 30 September 2019	24.5%
Shares in issue	547.6m
Free float	99%
Code	PCTN
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(0.8)	5.3	9.4
Rel (local)	(2.3)	0.3	3.1
52-week high/low	98.60p	79.40p	

### Business description

Picton Property Income is an internally managed UK REIT that invests in a diversified portfolio of commercial property across the UK. It is total return driven with an income focus and aims to generate attractive returns through proactive management of the portfolio.

### Next events

December 2019 NAV announcement January 2020

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**Picton Property Income is a  
research client of Edison  
Investment Research Limited**

## Well covered dividends & positive total return in H120

Against a more uncertain political and economic backdrop, Picton produced a solid performance in H120. The property portfolio performed well, driven by the strong portfolio weighting towards the industrial and office sectors. The like-for-like increase in valuation was 1.2% and the total return of 3.2% in the period was well ahead of the MSCI Quarterly Property Index ('the Index') total return of 0.8%. Picton has outperformed the Index in terms of both total return and income return over one, three, five and 10 years. Although recurring income earnings were lower as expected as the company uses scheduled lease expiries and lease surrenders to invest in improving and repositioning assets to enhance longer term income and capital value prospects, the dividend remains well covered and NAV total return in the period was a positive 2.8%.

### Exhibit 1: Summary of H120 financials

£m unless stated otherwise	H120	H119	FY19	H120/H119
Revenue from properties	23.4	24.5	47.7	-5%
Property expenses	(6.2)	(4.3)	(9.4)	44%
<b>Net property income</b>	<b>17.2</b>	<b>20.2</b>	<b>38.3</b>	<b>-15%</b>
Total operating expenses	(2.9)	(3.1)	(5.8)	-6%
<b>Underlying operating profit</b>	<b>14.3</b>	<b>17.2</b>	<b>32.5</b>	<b>-17%</b>
Net finance expense	(4.2)	(4.9)	(9.1)	-14%
Tax	0.1	(0.4)	(0.5)	
<b>EPRA earnings</b>	<b>10.2</b>	<b>11.8</b>	<b>22.9</b>	<b>-14%</b>
Debt prepayment fees	0.0	(3.2)	(3.2)	
Profit on disposal of investment property	0.0	0.4	0.4	
Investment property valuation movements	4.3	10.0	10.9	
<b>IFRS net profit</b>	<b>14.5</b>	<b>18.9</b>	<b>31.0</b>	<b>-23%</b>
<b>EPRA EPS (p)</b>	<b>1.9</b>	<b>2.2</b>	<b>4.3</b>	<b>-15%</b>
IFRS EPS (p)	2.7	3.5	5.7	
<b>DPS declared (p)</b>	<b>1.75</b>	<b>1.75</b>	<b>3.50</b>	<b>0%</b>
Dividend cover	1.07	1.25	1.21	
Net assets, IFRS & EPRA	510.7	497.1	499.4	
<b>NAV per share, IFRS &amp; EPRA (p)</b>	<b>94</b>	<b>92</b>	<b>93</b>	<b>1%</b>
NAV total return	2.8%	3.9%	6.5%	
Investment property assets	683.2	673.9	676.1	1%
Net LTV	24.5%	25.5%	24.7%	

Source: Picton Property Income data, Edison Investment Research

- Net property income was lower than in the previous year as expected, reflecting the lower level of portfolio occupancy (88% at end-H120 compared with 94% at end-H119 and 90% at end-FY19) resulting from the refurbishment programme, negatively affecting current rental income and increasing void property costs.
- Administrative expenses were tightly controlled and with a non-recurrence of REIT conversion costs were 6% lower than in H119.
- Finance costs were also lower, by 14%, reflecting both lower average debt and a lower average cost of debt, including the impact of the early loan repayment made in July 2018.
- EPRA earnings were £10.2m and EPRA EPS was 1.9p. Coming from a high level of cover in FY19 (1.21x), providing the scope to undertake a significant refurbishment programme and defer rental income, dividend cover remained healthy at 1.07x in H120.
- Including revaluation gains of £4.3m or 1.2% on a like-for-like basis, IFRS earnings were £14.5m. EPRA NAV per share increased 0.9% to 94p and including the two quarterly dividends paid in the period, each of 0.875p per share, EPRA NAV total return in the period was 2.8%.
- With a net loan to value ratio of 24.5% at end-H120, gearing remained moderate and has fallen further since the end of the period following the £18.2m disposal of an office property in Croydon.

In its outlook statement Picton anticipates that against the current uncertain economic and political backdrop, interest rates are likely to remain low for the foreseeable future. UK commercial property sector returns are expected to be lower than in recent years, although the broad market consensus is that they will remain positive (Exhibit 6), substantially driven by income, with the industrial and office sectors continuing to lead. Picton's portfolio positioning continues to look well placed as does its income focus and fully covered dividends, while a diversified tenant base mitigates some of the cyclical income risks. Gearing is deliberately conservative, while flexible undrawn banking facilities provide scope for opportunistic acquisitions should these arise. Meanwhile the significant refurbishment programme is underway to enhance and unlock income and value potential within the portfolio.

## **New chairman appointed**

The decision of Nicholas Thompson to stand down as chairman, a position he has held since the company was launched in 2005, was announced earlier in the year. After a thorough search he is to be succeeded by Nick Wiles who has been appointed as a non-executive director, effective 1 January 2020, and who will transition to chairman on 1 June 2020 when Nicholas Thompson formally steps down. Nick Wiles was senior independent non-executive director at Primary Health Properties until its merger with MedicX earlier in the year. He is currently chairman of PayPoint Inc and during a long career in investment banking mostly spent at Cazenove & Co, where he was a partner prior to its incorporation; he was also chairman of UK investment banking at Nomura until retiring in 2012.

## **Portfolio update, performance and potential**

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While Picton's property portfolio performance continues to benefit from its sector positioning, there is significant potential within the portfolio to enhance income and capital values, in many cases supported by identified asset management initiatives.

The externally appraised fair value of the portfolio at 30 September 2019 (end-H120) was £693m (FY19: £685m) with a balance sheet value, after lease and other adjustments, of £683m. Like-for-like growth in the period was 1.2%. The annualised rental income (or passing rent) was £37.9m with an estimated market rental value at full occupancy (ERV) of £47.3m, both a little ahead of the end of FY19. The valuation reflects a net initial yield of 4.9% and a reversionary yield of 6.3%. The £9.4m gap between passing rent and ERV represents a significant opportunity for Picton to enhance the income and value of the portfolio through future leasing events. Almost two-thirds of this reversionary potential relates to void reduction, with EPRA occupancy of 88% at end-H120 below the historical trend (c 94–95% over the past five years) and significantly reflecting the timing of lease maturities. The weighted average unexpired lease length is just over five years.

Since the end of H120 Picton has disposed of an office building in Croydon for £18.2m. The sale price represented a 7% uplift to the June 2019 valuation, was double the 2005 acquisition price of £9.1m and was reflected in contributed to the H120 unrealised revaluation gains. The property was sold with 10% vacancy and the potential for vacant possession in 2022 following a lease restructuring earlier in the year. Picton has received £0.6m in additional income as a result of the lease restructuring.

**Exhibit 2: Portfolio summary as at 30 September 2019\***

	September 2019	March 2019
Portfolio valuation	£693m	£685m
Number of properties	49	49
Average lot size	£14.2m	£14.0m
Net initial yield	4.9%	5.0%
Net reversionary yield	6.3%	6.3%
Annualised rental income	£37.9m	£37.7m
Annualised reversionary income	£47.3m	£46.8m
Occupancy as % of ERV	88%	90%
Weighted average lease length	5.1 years	5.1 years

Source: Picton Property Income. Note: \*Does not reflect disposal of an office building in Croydon for £18.2m, announced 6 November.

## Overweight position in industrial and office driving performance

The sector and regional positioning of the portfolio highlights its unconstrained approach to asset selection within the overall framework of maintaining a diversified overall portfolio. Compared with the MSCI Quarterly Property Index, the portfolio has around double the weighting to the strongly performing industrial sector (with a high South-East share) and around half the weighting in retail/leisure sectors (no exposure to shopping centres) where returns are currently weak. The regional (rather than central London) nature of Picton's office exposure also contributed positively to performance. Picton's six-month portfolio return was 3.2%, outperforming the MSCI UK Quarterly Property Index return of 0.8%, with an income return of 2.4%, 0.1% ahead of the Index.

In H120 Picton's industrial portfolio saw like-for-like growth in capital values of 3.8% with passing rent up 1.2% and ERV by 2.7%. While office portfolio values increased by 1.9% like-for-like, passing rent was 2.2% lower on the same basis, primarily reflecting a lease expiry (in Chatham) where the property is currently being refurbished. The office portfolio ERV increased by 2.3%. Reflecting market conditions, the retail and leisure portfolio saw a 6.1% like-for-like decline in capital values, although passing rent increased by 3.9% as previously void space was successfully let. The retail & leisure portfolio ERV declined by 4.7%.

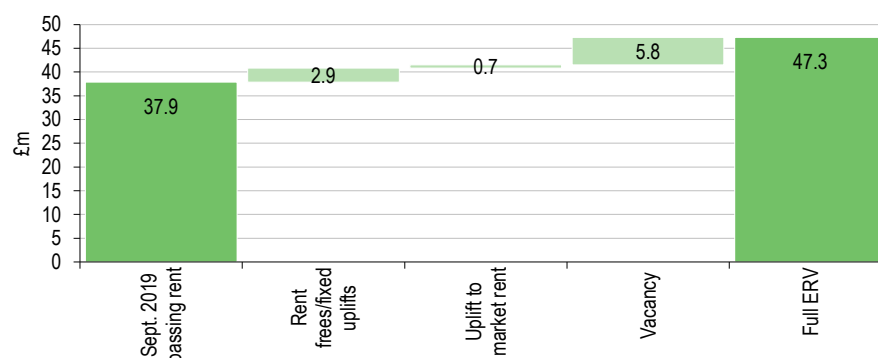
**Exhibit 3: Sector and geographic weighting of portfolio (by value)**

	September 2019	March 2019	March 2018
	H120	FY19	FY18
<b>Industrial</b>	<b>46.8%</b>	<b>45.6%</b>	<b>41.2%</b>
South East	33.3%	32.4%	28.6%
Rest of UK	13.5%	13.2%	12.6%
<b>Offices</b>	<b>34.6%</b>	<b>34.3%</b>	<b>35.9%</b>
London City & West End	4.1%	4.2%	4.1%
South East	19.6%	19.3%	19.4%
Rest of UK	10.9%	10.8%	12.4%
<b>Retail &amp; Leisure</b>	<b>18.6%</b>	<b>20.1%</b>	<b>22.9%</b>
Retail warehouse	7.4%	8.2%	9.5%
High Street - rest of UK	4.5%	5.0%	6.1%
High Street - South East	4.9%	5.1%	5.3%
Leisure	1.8%	1.8%	2.0%
<b>Total portfolio</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Picton Property Income

## Leasing activity capturing rental growth

Significant leasing activity in H120 included the completion of 14 new lettings adding an aggregate c £1.5m to annualised rent roll, on average at around the estimated rental value (ERV). Additionally, 20 existing lease renewals were completed, covering an aggregate c £1.2m of an annualised rent roll, and an average 9% uplift to ERV, as well as 12 rent reviews that were secured at an average 6% above ERV, producing an uplift of c £0.5m to annualised rent roll.

**Exhibit 4: Portfolio income opportunity to full occupancy estimated rental value (ERV)**


Source: Picton Property Income

## 79% of vacancy represents assets currently under refurbishment

As a percentage of ERV, 79% of Picton's vacancy is represented by assets that are currently under refurbishment, with the company taking advantage of lease expiries and the opportunity to take back properties early through lease surrenders (in many cases generating surrender premium income) to actively invest in improving the quality of the assets with the intention of delivering higher occupancy, rental income and capital values over time. Earlier in the year Picton said that it had identified more than 20 projects within the portfolio, representing an aggregate investment of c £15m. We expect this investment to be spread over the current year and next. During H120 £2.8m was invested to refurbish and reposition assets. Projects were completed at Marlow and Manchester, where the space is either under offer or receiving good interest. Work is currently underway at 11 other assets.

Exhibits 5 lists several projects that are currently under way with an aggregate ERV of £3.5m and the potential to meaningfully enhance income and value when completed.

**Exhibit 5: Significant asset management projects**

Sector	Asset location	Project	ERV
Retail	Long Acre, Covent Garden, WC2	Refurbishment is under way with completion expected in April 2020. Although classified as Retail (which represents more than 50% of the value), the upper floors office represents more than half of ERV. A tenant for the retail space at completion has been identified, subject to contract.	£1.6m pa
Industrial	Rugby	Refurbishment of this 100,000sq ft cross docked unit located in the golden triangle is under way with completion expected in December 2019. Picton reports encouraging enquiry levels.	£0.6m
Office	Bristol	The reception of Tower Wharf is under refurbishment with completion expected in December 2019. 20,000sq ft of the c 71,000sq ft total is available to lease and Picton reports strong occupier interest in 8,000sq ft.	£0.5m
Office	Greater Manchester	Refurbishment was completed in October creating 18,000sq ft of Grade A office space, a new reception, break-out space, and shower and changing facilities. Picton reports good occupier interest.	£0.4m
Office	Angel Gate EC1	A recently vacated 6,000sq ft unit in the c 65,000sq ft office building north of the city is being refurbished and Picton says that it will take a flexible stance on leasing options recognising occupier requirements.	£0.4m

Source: Picton Property Income

## The commercial property market remains polarised

Amid some slowing of UK economic growth and continuing Brexit-related uncertainty, the UK commercial property market as a whole has entered a period of increased uncertainty with sector performance remaining highly polarised. The industrial, warehouse and logistics sectors, and to a lesser extent the office sector, are continuing to deliver positive returns while the retail sector continues to suffer from weak occupational demand and the impact of CVAs and defaults, reflected in softer rental and capital values.

Looking forward, the most recent quarterly market forecasts by the Investment Property Forum (IPF, canvassing a group of fund managers and surveyors under the IPF Research Programme) were published in [September](#) and point to a deterioration in expectations for capital growth over the past quarter. This is focused on the retail sector, where the expectation of capital value decline has increased but also includes industrial, where expectations of capital value growth have been tempered. The consensus expectation for overall total property return remains positive despite weakness in retail.

**Exhibit 6: Summary of IPF market consensus**

	Rental growth value (%)				Capital value growth (%)				Total return (%)			
	2019	2020	2021	2019/23	2019	2020	2021	2019/23	2019	2020	2021	2019/23
Office	0.8	0.6	1.3	1.3	(1.1)	(1.1)	0.5	0.2	2.9	3.1	4.9	4.6
Industrial	3.0	2.0	1.7	2.0	2.1	1.1	1.5	1.5	6.6	5.7	6.1	6.1
Standard retail	(3.1)	(2.1)	(0.9)	(1.2)	(8.1)	(4.4)	(1.4)	(2.7)	(3.9)	0.1	3.3	1.9
Shopping centre	(4.7)	(3.3)	(1.8)	(2.3)	(13.8)	(7.2)	(3.7)	(5.7)	(8.8)	(1.5)	2.3	0.0
Retail warehouse	(3.8)	(2.5)	(1.0)	(1.5)	(10.8)	(5.7)	(1.9)	(3.9)	(5.2)	0.5	4.6	2.4
<b>All property</b>	<b>(0.2)</b>	<b>0.1</b>	<b>0.6</b>	<b>0.5</b>	<b>(3.6)</b>	<b>(1.8)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>0.9</b>	<b>2.9</b>	<b>4.7</b>	<b>4.0</b>
<b>Change since spring forecast</b>												
	Rental growth value (%)				Capital value growth (%)				Total return (%)			
	2019	2020	2021	2019/23	2019	2020	2021	2019/23	2019	2020	2021	2019/23
Office	0.4	0.3	0.2	0.2	0.6	0.2	0.6	0.5	0.5	0.0	0.6	0.5
Industrial	0.0	(0.2)	(0.1)	(0.1)	(0.5)	0.1	1.0	0.5	(0.6)	0.0	0.9	0.4
Standard retail	(0.3)	(0.4)	(0.3)	(0.4)	(0.7)	0.1	(0.1)	(0.2)	(0.7)	0.1	(0.1)	(0.2)
Shopping centre	(0.8)	(0.7)	(0.5)	(0.6)	(3.1)	(1.0)	(0.6)	(1.1)	(3.0)	(0.8)	(0.4)	(1.0)
Retail warehouse	(0.7)	(0.4)	(0.1)	(0.5)	(1.9)	(0.8)	0.1	(0.7)	(2.0)	(0.7)	0.2	<b>(0.6)</b>
<b>All property</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.8)</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.0</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>0.3</b>	<b>0.0</b>

Source: Investment Property Forum (IPF) UK consensus forecasts

We present the market consensus data as a guide to expected overall market direction and returns but would caution against a direct read across to Picton's, or any other, portfolio. The market consensus is formed of a wide range of differing expectations and at the individual portfolio level much depends on the performance of individual assets as well as the timing and effectiveness of asset management initiatives.

## Financials

Our forecasts allow for the completed sale of the Croydon office property in Q320 but otherwise assume an unchanged portfolio. In reality, Picton continues to monitor the market for attractive new investment opportunities and is also likely to continue to divest of mature assets.

As was the case in H120, we expect the current dip in occupancy and rent roll, as the company uses lease expiry and lease surrender opportunities to undertake refurbishment activity, to temporarily reduce FY20 rental income and EPRA earnings until some of the asset management projects complete and the properties re-let. We forecast growth to resume in FY21. Picton embarked on its asset management programme from a very strong dividend cover position (1.21x in FY19) and as a result we forecast dividend cover to remain at a good level in FY20 (1.09x) despite the expected EPRA earnings decline. Although we have not assumed growth in FY21 DPS,



we note that our forecasts show cover increasing to 1.20x, a level of cover that may indicate scope for dividend growth, especially as the bulk of the refurbishment investment should by then be complete.

Our key forecasting assumptions include:

- Growth in rent roll from £37.9m at end-H120 to £38.1m at end-FY20 (was £39.5m) and £40.8 at end-FY21 (was £40.9m). The reduction in forecast FY20 rent roll reflects the additional lease expiry/surrender at H120 (occupancy of 88% compared with 90% at end-FY19) as well as the Croydon disposal rent of (c £0.8m pa). Based on the disclosed progress with current refurbishment projects we have slightly accelerated our forecast occupancy and rent roll improvement through FY21. These forecasts may prove conservative given the significant upside to ERV (£47.3m at end-H120) that will remain. We expect ERV to increase slightly over the next two years as growth in industrial and office asset ERVs outstrips weakness in retail and leisure.
- For the industrial assets, we assume 3% pa like-for-like rental growth in FY20 and FY21, recognising the reversionary potential in the portfolio, and a £0.5m uplift from occupancy in H220, broadly equivalent re-letting the Rugby asset.
- For offices, we assume 2% like-for-like rental growth in FY20 and 1% in FY21, again capturing reversionary potential. We forecast occupancy improvement to add c £1.0m to rent roll by end-FY21 as asset management projects complete. This captures only a part of the £4.7m H120 reversionary potential in the office portfolio, of which £2.9m is from void reduction.
- For retail and leisure, we assume a further decline in like-for-like rents, at the rate of 5% pa in H220 and 4% pa through FY21. We also assume that rental income and occupancy benefits from re-letting of Stanford House, adding c £1.6m to rent roll during FY21.
- In FY20 administrative expenses benefitted from a non-recurrence of REIT conversion costs (FY19: £0.2m) but otherwise grew broadly in line with inflation. We forecast lower net interest expense as a result of debt repayments with cash flow supported by the Croydon disposal as well as the £7.1m (gross) of new equity raised in June 2019.
- For property revaluation we continue to assume a slowdown in FY21, with growth of 1% in industrial assets, 0.5% in offices and a further decline of 2.0% in retail and leisure. The blended change is c 0.3%. This may well prove conservative as combined with our expectations for rental growth, void reduction and rent roll growth it implies an increase in net initial yield (NIY) from c 4.9% at end-H120 to c 5.3% at end FY21. This adds just more than 3p per share to NAV over the two years. We estimate that a 0.25% increase in the portfolio net initial yield would reduce FY21e NAV per share by c 5p and that a 0.25% reduction would add c 7p.

A summary of our FY20 and FY21 forecasts is shown in Exhibit 7.

**Exhibit 7: Estimate revisions**

	Net property income (£m)			EPRA earnings (£m)			EPRA EPS (p)			EPRA NAV/share (p)			DPS (p)		
	Old	New	% change	Old	New	% change	Old	New	% change	Old	New	% change	Old	New	% change
FY20e	35.2	34.8	(1.1)	21.1	20.8	(1.4)	3.9	3.8	(1.2)	94.1	93.9	(0.2)	3.50	3.50	0.0
FY21e	37.3	36.8	(1.4)	23.1	23.1	(0.1)	4.2	4.2	(0.0)	95.2	94.9	(0.4)	3.50	3.50	0.0

Source: Edison Investment Research

## Funding

At 30 September 2019 (end-H120) the gross outstanding debt (including unamortised loan arrangement fees) was £187.1m and net debt was £170.0m with a net LTV of 24.5% (FY19: 24.7%). All of the debt is secured against property assets and the majority (90%) of outstanding debt represents long-term fixed-rate borrowing, which is supplemented by lower cost, more flexible,

revolving credit facilities. The average cost of debt was 4.1% and the weighted duration was 9.8 years.

At end-H120 the company had undrawn debt capacity of c £30m in addition to cash resources of £17.1m, providing considerable financial flexibility for future investment. The Croydon disposal has since netted c £18m in disposal proceeds and our forecasts assume that the c £19.0m of outstanding revolving debt will be repaid.

## Valuation

Picton has a strong focus on income and pays fully covered quarterly dividends that currently annualise at 3.5p per share (a prospective yield of 3.8% at the current share price), while continuing to invest in the portfolio to support future income growth.

In Exhibit 8 we show Picton's NAV total return performance (change in NAV plus dividends paid) over the five-year period from IPO to 31 March 2019. Without assuming reinvestment of dividends, the aggregate NAV total return over the period was c 94% or a compound annual average 14.2%. As discussed above, we believe that our forecasts for FY20 and FY21 have been struck cautiously, reflecting a less benign external market environment than has been experienced over the past five years while assuming a relatively modest capture of the upside potential within the Picton portfolio. H120 NAV total return was 2.8% and our forecasts imply a compound annual return of 5.4% for the year and 5.0% over the two-year forecast period FY20–21. Three-quarters of that forecast return comes from well-covered DPS payments. Even on this cautious basis of forecasting there remains a material uplift compared with risk-free returns (the 10-year UK gilt yield is c 0.7%).

**Exhibit 8: Historical and forecast EPRA NAV total returns**

Year ending 31 March	Reported					Cumulative FY15–19	Forecast		Cumulative FY20–21e
	FY15	FY16	FY17	FY18	FY19		FY20	FY21	
Opening EPRA NAV per share (p)	56	69	77	82	90	56	93	94	93
Closing EPRA NAV per share (p)	69	77	82	90	93	93	94	95	95
DPS paid (p)	3.00	3.30	3.30	3.40	3.50	17	3.50	3.50	7.00
<b>EPRA NAV total return</b>	<b>26.9%</b>	<b>17.6%</b>	<b>10.2%</b>	<b>14.7%</b>	<b>6.4%</b>	<b>93.8%</b>	<b>5.4%</b>	<b>4.7%</b>	<b>10.2%</b>
<b>Compound annual total return</b>						<b>14.2%</b>			<b>5.0%</b>

Source: Picton Property Income data, Edison Investment Research forecasts

In Exhibit 9 we show a summary performance and valuation comparison of Picton and what we consider to be its closest diversified income-oriented peers. Over the past year Picton shares have performed more strongly than the peer group average as well as the broader UK property sector and the FTSE All-Share Index. The valuation comparison is based on last-reported EPRA NAV per share and trailing 12-month DPS declared. On this basis the Picton yield is below the peer average and the P/NAV slightly above. We believe the outperformance of Picton shares and the share price rating reflect the company's strong track record of property level performance, the future income and valuation growth potential embedded in its portfolio, its good level of dividend cover and relatively modest gearing.



**Exhibit 9: Peer comparison**

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Ediston Property	87	184	0.80	6.6	-2%	-2%	-18%	-21%
BMO Real Estate Investments	85	205	0.82	5.9	-3%	-2%	-4%	-14%
BMO Commercial Property Trust	117	937	0.88	5.1	-2%	8%	-17%	-18%
Custodian	115	474	1.10	5.7	-1%	-2%	-1%	-5%
Regional REIT	107	463	0.94	7.6	2%	3%	9%	-3%
Schroder REIT	54	277	0.78	4.8	-6%	-1%	-3%	-10%
Standard Life Investment Property	87	355	0.96	5.4	-2%	0%	-1%	-9%
<b>Average</b>			0.90	5.9	-2%	0%	-5%	-11%
<b>Picton</b>	92	504	0.98	3.8	-1%	5%	9%	-8%
UK property index	1,859			3.6	2%	14%	9%	-1%
FTSE All-Share Index	4,093			4.6	2%	5%	6%	-3%

Source: Company data, Refinitiv, Edison Investment Research. Note: \*Last reported EPRA NAV per share.

\*\*Trailing 12-month DPS declared. Prices at 26 November 2019.

**Exhibit 10: Financial summary**

Year end 31 March	£'000s	2016	2017	2018	2019	2020e	2021e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Rents receivable, adjusted for lease incentives		39,663	40,555	41,412	40,942	38,833	40,509
Other income		1,107	7,356	1,443	1,073	1,658	1,000
Service charge income		5,153	6,487	5,927	5,718	6,172	6,000
Revenue from properties		45,923	54,398	48,782	47,733	46,663	47,509
Property operating costs		(3,308)	(3,501)	(2,578)	(2,342)	(2,592)	(2,500)
Property void costs		(1,540)	(2,023)	(1,830)	(1,373)	(3,076)	(2,200)
Recoverable service charge costs		(5,153)	(6,487)	(5,927)	(5,718)	(6,172)	(6,000)
Property expenses		(10,001)	(12,011)	(10,335)	(9,433)	(11,840)	(10,700)
Net property income		35,922	42,387	38,447	38,300	34,823	36,809
Administrative expenses		(4,411)	(5,249)	(5,566)	(5,842)	(5,800)	(5,945)
Operating Profit before revaluations		31,511	37,138	32,881	32,458	29,023	30,864
Revaluation of investment properties		44,171	15,087	38,920	10,909	7,125	1,816
Profit on disposals		799	1,847	2,623	379	0	0
Operating Profit		76,481	54,072	74,424	43,746	36,148	32,680
Net finance expense		(11,417)	(10,823)	(9,747)	(9,088)	(8,246)	(7,783)
Debt repayment fee					(3,245)		
Profit Before Tax		65,064	43,249	64,677	31,413	27,902	24,897
Taxation		(216)	(499)	(509)	(458)	68	0
Profit After Tax (IFRS)		64,848	42,750	64,168	30,955	27,970	24,897
Adjust for:							
Investment property valuation movement		(44,171)	(15,087)	(38,920)	(10,909)	(7,125)	(1,816)
Profit on disposal of investment properties		(799)	(1,847)	(2,623)	(379)	0	0
Exceptional income /expenses		0	(5,250)	0	3,245	0	0
Profit After Tax (EPRA)		19,878	20,566	22,625	22,912	20,845	23,082
Fully diluted average Number of Shares Outstanding (m)		540.1	540.1	539.7	541.0	546.3	547.6
EPS (p)		12.01	7.92	11.89	5.75	5.14	4.56
EPRA EPS (p)		3.68	3.81	4.19	4.25	3.83	4.23
Dividends declared per share (p)		3.300	3.325	3.425	3.500	3.500	3.500
Dividend cover (x)		112%	115%	122%	121%	109%	120%
EPRA cost ratio including direct vacancy costs)		22.8%	26.1%	23.7%	22.9%	29.1%	25.9%
<b>BALANCE SHEET</b>							
Fixed Assets		649,406	615,187	670,679	676,127	673,815	683,631
Investment properties		646,018	615,170	670,674	676,102	673,792	683,608
Other non-current assets		3,388	17	5	25	23	23
Current Assets		37,408	49,424	50,633	39,477	29,196	26,459
Debtors		14,649	15,541	19,123	14,309	14,091	15,077
Cash		22,759	33,883	31,510	25,168	15,104	11,383
Current Liabilities		(47,521)	(20,635)	(22,292)	(23,342)	(22,079)	(23,557)
Creditors/Deferred income		(18,430)	(20,067)	(21,580)	(22,509)	(21,246)	(22,724)
Short term borrowings		(29,091)	(568)	(712)	(833)	(833)	(833)
Long Term Liabilities		(222,161)	(202,051)	(211,665)	(192,847)	(166,626)	(166,996)
Long term borrowings		(220,444)	(200,336)	(209,952)	(191,136)	(164,911)	(165,281)
Other long term liabilities		(1,717)	(1,715)	(1,713)	(1,711)	(1,715)	(1,715)
Net Assets		417,132	441,925	487,355	499,415	514,306	519,537
Net Assets excluding goodwill and deferred tax		417,132	441,925	487,355	499,415	514,306	519,537
NAV/share (p)		77	82	90	93	94	95
Fully diluted EPRA NAV/share (p)		77	82	90	93	94	95
<b>CASH FLOW</b>							
Operating Cash Flow		33,283	36,283	35,088	34,756	27,959	30,865
Net Interest		(8,836)	(9,211)	(9,125)	(8,630)	(7,899)	(7,413)
Tax		(426)	(232)	(328)	(845)	11	0
Net cash from investing activities		(68,123)	48,691	(17,811)	10,251	9,429	(8,008)
Ordinary dividends paid		(17,822)	(17,957)	(18,487)	(18,860)	(19,076)	(19,166)
Debt drawn/(repaid)		14,591	(46,450)	9,183	(22,616)	(26,595)	0
Net proceeds from shares issued/repurchased		0	0	(893)	(398)	6,107	0
Other cash flow from financing activities							
Net Cash Flow		(47,333)	11,124	(2,373)	(6,342)	(10,064)	(3,722)
Opening cash		70,092	22,759	33,883	31,510	25,168	15,104
Closing cash		22,759	33,883	31,510	25,168	15,104	11,383
Debt as per balance sheet		(249,535)	(200,904)	(210,664)	(191,969)	(165,744)	(166,114)
Un-amortised loan arrangement fees		0	(3,740)	(3,376)	(2,700)	(2,330)	(1,960)
Closing net (debt)/cash		(226,776)	(170,761)	(182,530)	(169,501)	(152,970)	(156,691)
Net LTV		34.6%	27.3%	26.7%	24.7%	22.4%	22.6%

Source: Picton Property Income data, Edison Investment Research forecasts

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