

# Picton Property Income

Income is now the driver of returns

Post-H123 update

Real estate

7 December 2022

**Price** 84p  
**Market cap** £458m

Net debt (£m) at 30 September 2022	205.4
Net LTV (%) at 30 September 2022	24.1%
Shares in issue	545.2m
Free float	100%
Code	PCTN
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(2.9)	(1.9)	(14.9)
Rel (local)	(5.5)	(4.5)	(14.9)
52-week high/low		106p	72p

## 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

FY23 period-end	31 March 2022
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**Picton Property Income is a  
research client of Edison  
Investment Research Limited**

Positive leasing activity and rental growth drove Picton Property Income's H123 income returns, softening the impact of weaker market-wide property values and continuing its long track record of property outperformance versus the index. Significant opportunities for further growth in income and fully covered DPS are protected by 95% of drawn debt being fixed rate. Low gearing provides protection against further weakness in property values and NAV.

Year end	Net property income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	DPS declared (p)	NAV** per share (p)	P/NAV (x)	Yield (%)
03/21	33.5	20.1	3.7	2.93	97	0.87	3.5
03/22	35.4	21.2	3.9	3.45	120	0.70	4.1
03/23e	36.5	21.0	3.9	3.50	101	0.83	4.2
03/24e	38.0	21.6	4.0	3.60	101	0.83	4.3

Note: \*EPRA earnings exclude revaluation gains/losses and other exceptional items. \*\*NAV measure is net tangible assets (NTA), currently the same as IFRS NAV.

## Robust EPRA earnings but NAV lower

Robust H123 results were supported by firm occupier demand, with new lets, renewals and rent reviews completed at or above estimated rental value (ERV). Passing rent increased 3% on a like-for-like basis and ERV by 5%, although occupancy was lower (90% vs 93% at end-FY22), in part due to acquisitions. EPRA earnings were stable at £10.7m, covering DPS 112%. Mirroring market-wide trends, mitigated by leasing gains, portfolio valuations reduced by 1.9%. The portfolio total return was -0.2%, ahead of the MSCI UK Quarterly Property Index return (-1.3%) as it has been over one, three, five and 10 years and since inception. EPRA NTA per share was 3.2% lower at 117p and including DPS paid of -1.75p (+6%) the total accounting return was a negative 1.7%. In an uncertain and challenging economic environment, we have cautiously reduced forecast EPRA earnings (by 2% in FY23 and 5% in FY24) and have deferred any increase in current quarterly DPS until FY24. We allow for an additional 10% decline in property values by end-FY23 (yield +0.6pp to 4.8%), reducing FY23e and FY24e NAV by c 22% and 24% respectively.

## Continuing opportunities to grow income

Picton is total return driven with an income focus. It has successfully generated attractive returns through proactive management of its portfolio, investing in assets where it believes there are opportunities to enhance income and value. Most of its recurring income is distributed via fully covered DPS while retaining surplus cash for reinvestment back into the portfolio. While we expect further adjustment of property values to increased bond yields, asset management opportunities remain strong. The existing portfolio contains significant organic growth potential with a c £13m gap between passing rent and ERV. More than £5m relates to the letting of mostly refurbished assets, an opportunity to grow income and support valuations.

## Valuation: DPS fully covered with surplus for growth

The current annualised rate of DPS (3.5p) represents a prospective yield of 4.2% and we forecast further growth, fully covered in FY24. The FY23e P/NAV is c 0.83x, which is below the five-year average of c 0.94x and a peak of c 1.1x.

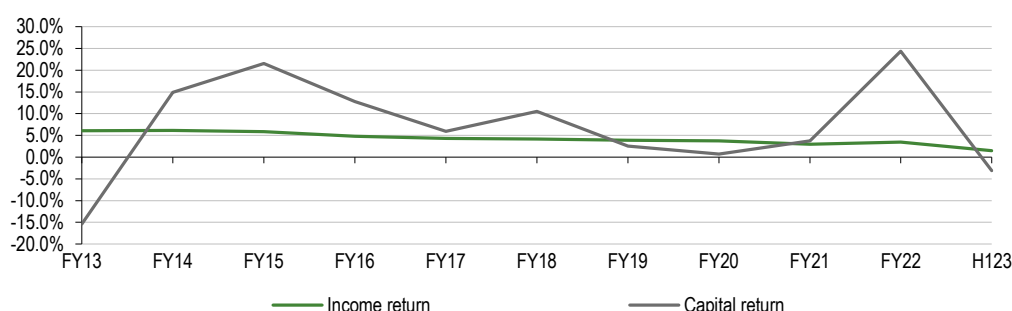
## Income is now the driver of returns

As described in detail in our [June Outlook note](#), Picton's strategy is total return driven with an income focus. It aims to generate attractive returns through pro-active management of its portfolio, investing in assets where it believes there are opportunities to enhance income and/or value. Its dividend policy is to distribute most of the recurring income earnings to shareholders via quarterly dividends, maintaining full cover, and generating surplus cash for reinvestment back into the portfolio. The company's aim is to be one of the consistently best-performing diversified UK real estate investment trusts (REITs).

After a long period of rising property values, interrupted for a time during the pandemic, rising bond yields, economic and political uncertainty, and sharp reduction in investment demand for UK commercial property, this reversed in Q223 despite many sectors reporting good occupier demand and increasing rents. Although low transactional activity provides limited evidence as to where values may settle, yields continued to widen in October, and we expect this to continue.

In common with the sector, Picton's across-the-cycle income return has been much more stable than the capital return. Successful asset management is thus key to sustainably enhancing total return, driving further income growth and supporting valuation.

### Exhibit 1: Income provides a relatively more stable bedrock to performance



Source: Picton Property Income data, Edison Investment Research

## Good leasing progress reflects robust occupational demand

Picton observes continuing robust occupational demand in the industrial sector, with good quality offices still attracting occupiers, and stable occupier conditions in the retail warehouse and prime high street markets. This is also reflected in rental growth, with ERV growth of 9% in the company's industrial portfolio and 1% in offices, while retail and leisure ERV declined 1%.

During H123, 12 new lettings were completed, securing annualised income of £0.5m, in line with March ERV; five leases were renewed/regeared retaining £0.3m pa of income, 49% ahead of previous passing rent and 25% above ERV; and eight reviews were completed, securing a £0.1m pa uplift in income, 1% ahead of ERV.

In addition, Picton reported a current pipeline<sup>1</sup> of 12 new lettings, totalling £1m pa, agreed subject to contract.

Including c £0.9m of additional income from acquisitions (see below) and an uplift from the expiry of rent free periods, passing rent increased to £40.7m pa (end-FY22: £38.7m). The like-for-like increase was 3%. The portfolio ERV increased to £53.8m (end-FY22: £49.8m), including a like-for-

<sup>1</sup> As at 9 November 2022.

like increase of 5%. End-H123 occupancy of 90% was down from 93% at end-FY22. Around a third of this resulted from acquisitions (with strong asset management potential), discussed below, while ERV growth on some vacant space was also a factor.<sup>2</sup>

## Significant further potential to organically grow income

ERV is significantly (£13.1m or 32%) above annualised passing rent of £40.7m (+3% like-for-like). Void reduction represents £5.4m of the potential upside, with the balance coming from rent-free run-offs and stepped up rents (c £5.1m) and the potential to increase existing rents to market levels at lease expiry (c £2.7m).

By sector, the greatest potential is within the industrial and office sectors. With occupancy close to full in the industrial sector, the upside is from reversion to market rents (which continue to increase), while in the office sector, considerable upside remains from void reduction. Across the portfolio, the five largest voids account for £3.1m of ERV, or more than 50% of the total.

**Exhibit 2: Estimated reversionary income potential by sector at end-H123**

£m unless stated otherwise	Passing rent	ERV	Occupancy	Reversion		
				Total	Void reduction	Other*
Industrial	18.3	25.6	95%	7.3	1.2	6.1
Office	15.0	21.3	83%	6.3	3.7	2.6
Retail and leisure	7.4	6.9	94%	(0.4)	0.5	(0.9)
	40.7	53.8	90%	13.1	5.4	7.8

Source: Picton Property Income data and Edison Investment Research estimates. Note: Columns may not total due to rounding. \*Includes £2.7m of rent-free 'run-off', £2.4m of stepped-up rents and £2.7m upside from contracted rents to market rents.

At 90%, EPRA occupancy is c 3pp below the five- and 10-year averages and c 6pp below recent peaks. The majority of the current void in the portfolio is relatively recent in origin rather than 'stubborn'. Around 50% arose in this calendar year and a further 30% in calendar 2021. In part this relates to units becoming available during the pandemic that have subsequently been refurbished to enhance letting prospects.

The industrial vacancy represents just six units, four of which became available this year. All the units are either recently refurbished or where work has commenced on site, while occupier demand remains robust.

Occupier demand in the office sector is not as strong as for industrial, with a focus on quality. The flexible lease offering, SwiftSpace, has been introduced to the majority of remaining office vacancy, providing shorter-term leasing opportunities (typically two years with rolling six-month break options) to provide immediate income, with the potential to convert to more traditional leases (typically five years) over time. The SwiftSpace proposition has already helped to grow occupancy on smaller units with seven lettings across five assets.

Within retail & leisure, the retail warehouse portfolio is fully leased and there are two vacant high street shops, both under offer. The predominantly leisure asset at Regency Wharf in Birmingham includes a fully refurbished office element for which Picton has occupier interest that it is progressing.

## Recent acquisitions are yet to fully contribute

Early in H123 (May), Picton completed the acquisition of Charlotte Terrace, a mixed-use property in Hammersmith, London, for £13.7m. It is located close to Olympia, which is currently undergoing a £1bn redevelopment to deliver a new creative district and enhance the area. The annual rental

<sup>2</sup> EPRA occupancy is defined as the ERV of occupied space as a percentage of total ERV. The capture of rent reversion through lease renewals or lease incentive run-offs would increase rent roll without necessarily changing EPRA occupancy.

income on purchase of £0.5m pa reflected a modest net initial yield (NIY) of 3.3% off a low capital value, well below replacement cost. The company expects this to rise to over £1.1m pa once the remaining units are leased, reflecting a yield of 8%. A first letting has already been secured and, to improve office occupancy further, additional space is being upgraded for the rolling out of SwiftSpace, Picton's flexible lease offering.

The acquisition of a second mixed-use property in Cheltenham, for £5.3m, was completed in August. It is well-located within Cheltenham's pedestrianised town centre, adjacent to John Lewis, and, having been comprehensively refurbished in 2020, benefits from good environmental credentials. It is leased to four occupiers with an average lease length of 12 years to expiry and eight years to break. The annual rental income at acquisition was £0.4m, reflecting an NIY of 7.2%, and with most leases containing fixed rental uplifts this will increase to £0.5m pa by 2026, an NIY of 9.0%.

Picton has available debt capital resources of £38m with which it could selectively take advantage of further acquisition opportunities that may arise, particularly where vendors may be under pressure to realise liquidity. However, given the current level of uncertainty and volatility of debt markets, we have not forecast this.

## Mostly fixed-rate borrowing provides interest rate protection to income

Picton's balance sheet is strong and substantially protected against further interest rate increases, and gearing is moderate. Of total debt facilities of £263m, £225m was drawn at end-H123 (95% of which fixed rate), reflected in a net loan to value ratio of 24.1%. Other than the partly drawn revolving credit facility (RCF), which matures in May 2025, the earliest significant re-financing event is in July 2031. All loan covenants continue to be met, with significant headroom, while a further £80m of uncharged assets provide additional flexibility. This should remain the case despite the increase in LTV to around 28% reflected in our forecasts, due to an assumed further weakening in property values.

Following a late-FY22 debt refinancing, both the company's long-term credit facilities are fixed rate with a blended average cost of 3.7% and a blended average maturity of more than nine years. A shorter-term, floating rate RCF of £50m, providing flexibility to take advantage of further growth opportunities when identified, was c £12m drawn at end-H123 with £38m available to the company.

### Exhibit 3: Summary of debt portfolio

Lender	Canada Life	Aviva	NatWest RCF
Amount drawn	£129m	£84.2m	£11.9m
Undrawn	Fully drawn	Fully drawn	£38.1m
Maturity	Jul-31	Jul-32	May-25
Interest rate	Fixed 3.25%	Fixed 4.38%	SONIA +1.5%
Commitment fee	N/A	N/A	0.60%
LTV covenant	65%	65%	55%
Interest cover covenant	1.75x	N/A	2.5x
Debt service cover ratio covenant	N/A	1.4x	N/A

Source: Picton Property Income, as at 30 September 2022

Picton's minimal exposure to further interest rate rises would increase if it utilises undrawn funds available from the RCF. The Bank of England base rate (increased on 3 November to 3.0% from 2.25%) is closely tracked by SONIA, the reference rate for variable rate borrowing. Money market expectations for the future development of SONIA/base rate, reflected in the SONIA swap curve, have been volatile, indicating a peak of 4.5–6.0% by the middle of 2023 before steadily declining towards a long-term level of 3–4%. Current rates are at the lower end of this range. Our forecasts reflect an average SONIA rate of c 4.0% through FY24, with little impact on borrowing costs. At this

level of SONIA, the cost of further drawing from the RCF would be c 4.9% (the 1.5% facility margin, less 0.6% commitment fee on undrawn balances, plus the SONIA benchmark), but would increase if interest rates continued to increase. Given the level of uncertainty that exists, we expect Picton to proceed cautiously and selectively with respect to further investment.

## Property values are repricing because of rising bond yields

Like-for-like portfolio valuations reduced by 1.9% in H123, having increased by 1.9% in Q123 (and by 21% in FY22) and the EPRA NIY widened slightly to 4.2% versus 4.1% at end-FY22.

With a weaker demand-supply balance, rising bond yields and limited market transactions, there is much uncertainty about future capital values, despite many sectors reporting good occupier demand and increasing rents. This is particularly the case for industrial/logistical assets, which saw the largest pull back in quarterly valuation, after exceptionally strong past growth, despite continuing firm occupier demand, constrained supply and rising rents. The office and retail sectors have seen relatively stable capital returns in the year-to-date but were also negatively affected by yield widening in Q223. The performance of Picton's portfolio broadly mirrors these market-wide trends and in such an environment the benefits of a diversified investment approach are clear. Market-wide valuation pressure has continued since September, and in our forecasts we have assumed that the portfolio's valuation falls by 10% from the 30 September 2022 level by year-end, reflected in a 60 basis point widening of the NIY, including a positive impact from leasing. For FY24 we have assumed no further valuation movement, positive or negative.

**Exhibit 4: H123 portfolio split and like-for-like valuation changes**

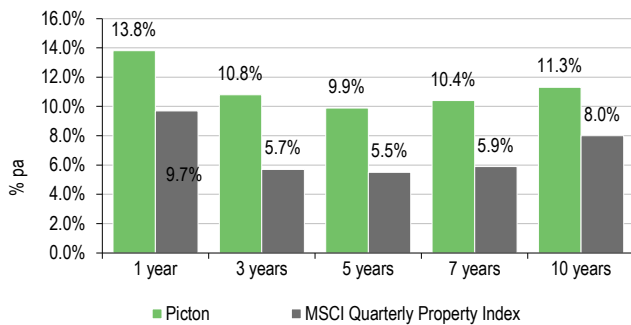
	Portfolio allocation	Valuation	Like-for-like valuation change
<b>Industrial weighting</b>	<b>58.0%</b>	<b>£494.5m</b>	<b>-3.0%</b>
o/w South East	42.1%		-3.2%
o/w Rest of UK	15.9%		-2.5%
<b>Office weighting</b>	<b>31.6%</b>	<b>£269.0m</b>	<b>-0.5%</b>
o/w London City & West End	7.1%		-0.5%
o/w inner & outer London	5.4%		-1.5%
o/w South-East	8.8%		-2.1%
o/w Rest of UK	10.3%		1.5%
<b>Retail &amp; Leisure weighting</b>	<b>10.4%</b>	<b>£88.4m</b>	<b>-0.1%</b>
o/w Retail Warehouse	6.8%		0.6%
o/w High Street Rest of UK	2.1%		-3.6%
o/w Leisure	1.5%		2.1%
<b>Total</b>	<b>100.0%</b>	<b>£851.9m</b>	<b>-1.9%</b>

Source: Picton Property Income

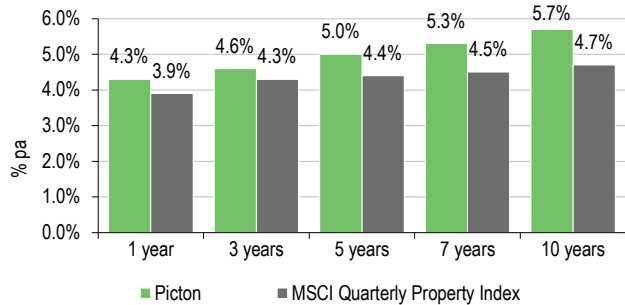
## Consistently positive portfolio returns

Although valuation yield tightening has been the significant driver of capital growth in recent years, asset management also contributes. Investment to reposition and improve properties, enhancing their attractiveness to occupiers and income potential, also contributes to capital growth and we expect this to continue. At the portfolio level, driven by positive asset management and portfolio positioning, the company has a strong, long-term track record of outperformance versus the MSCI Quarterly Property Index, over one, three, five and 10 years and since inception. It also produced an upper-quartile index performance over three, five and 10 years and since inception. This continued in a challenging H123 environment, with Picton's ungeared portfolio total return of -0.2% outperforming the index return of -1.3%. Its income return of 2.1% was 0.2% ahead of the index.

Exhibit 6 also demonstrates the relative stability of property income returns over the longer term.

**Exhibit 5: Total property return versus index\***


Source: Picton Property Income, MSCI. Note: Data to 30 September 2022. \*Annualised percentage returns.

**Exhibit 6: Property income return versus index\***


Source: Picton Property Income, MSCI. Note: Data to 30 September 2022. \*Annualised percentage returns.

## Our estimate changes are driven by a market-wide softening of property values

The changes to our headline EPRA earnings and DPS forecasts are modest compared with the balance sheet impact of widening property yields.

Our forecast EPRA earnings are c 2% lower in FY23 and c 5% lower in FY24 compared with those [last published](#), comprising:

- slightly higher gross rental income, including a positive impact from leasing and acquisitions, more than offset by higher non-recoverable property costs, significantly driven by inflationary pressure; and
- slightly higher net interest costs, the result of borrowing drawn to fund acquisitions and the impact of higher market interest rates on the floating rate debt.

Reflecting the level of financial market and economic uncertainty, we have adopted a slightly more cautious stance on DPS growth, deferring an increase in quarterly DPS until Q124, with a slightly smaller uplift to maintain a strong level of DPS cover.

Our forecasts for FY23 and FY24 EPRA NTA per share are c 22% and c 24% lower, respectively, at around 101p in each year (end-FY22: 120p).

**Exhibit 7: Forecast revisions**

£m	Forecast		Previous forecast		Change			
	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
Gross rental income	42.0	43.3	41.6	42.9	0.3	0.4	0.8%	0.8%
Other income	0.5	0.5	0.5	0.5	(0.0)	0.0	-5.4%	0.0%
Non-recoverable property costs	(6.0)	(5.7)	(5.1)	(4.8)	(0.9)	(0.9)	17.4%	19.3%
<b>Net rental income</b>	<b>36.5</b>	<b>38.0</b>	<b>37.1</b>	<b>38.6</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>-1.6%</b>	<b>-1.5%</b>
Administrative expenses	(6.0)	(6.6)	(6.2)	(6.6)	0.1	0.0	-2.1%	0.0%
Net interest	(9.4)	(9.8)	(9.3)	(9.3)	(0.1)	(0.5)	0.9%	5.4%
<b>EPRA earnings</b>	<b>21.0</b>	<b>21.6</b>	<b>21.6</b>	<b>22.7</b>	<b>(0.5)</b>	<b>(1.1)</b>	<b>-2.5%</b>	<b>-4.7%</b>
Realised & unrealised property gains/(losses)	(108.5)	0.0	48.7	15.5	(157.1)	(15.5)		
IFRS earnings	(87.4)	21.6	70.3	38.1	(157.7)	(16.5)		
<b>EPRA EPS (p)</b>	<b>3.9</b>	<b>4.0</b>	<b>4.0</b>	<b>4.2</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>-2.4%</b>	<b>-4.6%</b>
IFRS EPS (p)	(16.0)	4.0	12.9	7.0	(28.9)	(3.0)		
<b>DPS declared (p)</b>	<b>3.5</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>-2.8%</b>	<b>-1.6%</b>
<b>Dividend cover (x)</b>	<b>1.10</b>	<b>1.10</b>	<b>1.10</b>	<b>1.13</b>				
EPRA NTA per share (p)	100.9	101.4	129.9	133.3	(28.9)	(31.9)	-22.3%	-23.9%
EPRA NTA total return	-13.3%	4.1%	10.8%	5.5%				
LTV	28.4%	28.4%	23.4%	24.0%				

Source: Edison Investment Research

Additional to our forecasts, each 1% fall/increase in the end-FY23 portfolio value would reduce FY23e EPRA NTA per share by c 1.4%.

## Income returns will be the near-term driver

Over the past 10 and a half years Picton's aggregate accounting total return<sup>3</sup> has been 161.0%, or an average 9.6% pa. Reflecting the total return investment strategy, dividend returns have contributed around one-third of total return and capital growth around two-thirds.

H123 total return was a negative 1.7% as property valuations weakened. We expect DPS to increase in FY24 while capital values weaken further, generating a dividend return of 2.9% and 3.3% in FY23 and FY24, respectively, but total returns of -16.2% and +0.5%.

**Exhibit 8: 10-year accounting total return history**

Year ending 31 March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	H123	Cumulative 10-year
Opening NAV per share (p)	58	49	56	69	77	82	90	93	93	97	120	58
Closing NAV per share (p)	49	56	69	77	82	90	93	93	97	120	117	117
DPS paid (p)	3.5	3.0	3.3	3.3	3.3	3.4	3.5	3.5	2.8	3.4	1.8	34.7
Dividend return	6.0%	6.1%	5.9%	4.8%	4.3%	4.2%	3.9%	3.8%	2.9%	3.5%	1.5%	59.8%
Capital return	-15.4%	14.9%	21.6%	12.7%	5.9%	10.5%	2.6%	0.7%	3.7%	24.4%	-3.1%	101.2%
NAV total return	-9.4%	21.0%	27.4%	17.6%	10.2%	14.7%	6.4%	4.4%	6.6%	27.9%	-1.7%	161.0%
Average annual total return												9.6%

Source: Picton Property Income data, Edison Investment Research

## Interim results in more detail

H123 EPRA earnings of £10.7m were broadly stable, a little below H122 (£10.9m) and a little ahead of H222 (£10.3m). The overall IFRS loss of £10.4m reflected negative valuation movements of £21.1m (positive gains of £43.0m in H122 and £86.8m in H222). The drivers behind this result include:

<sup>3</sup> The change in NAV in the period adjusted for dividends paid but not reinvested.



- Rental income increased by 6% year-on-year to £20.9m, primarily reflecting the new acquisitions made over the last year and was also ahead of H222 (£20.4m).
- Property expenses also increased, primarily affected by inflationary pressures and increasing void costs (end-H123 occupancy 90% vs 93% at end-H122 and end-FY22).
- Net property income increased 2.6% versus H122 to £18.1m and was also ahead of H222 (£17.8m).
- Administrative expenses for the period were £0.2m higher than in H122, at £2.9m. With inflation impacts well controlled, this was a similar level to H222.
- Finance costs were £4.5m, a similar level to H222. The March 2022 re-financing reduced both the average cost of drawn debt and the amount drawn.
- EPRA EPS of 2.0p covered DPS declared of 1.75p by 1.12x.
- EPRA NTA was 3.2% lower than at end-FY22 but remained c 11% above the H122 level.
- The loan to value ratio was higher, reflecting property acquisition, but remains at a moderate level of 24.1% (end-FY22: 21.2%).

**Exhibit 9: Summary of H123 financial performance**

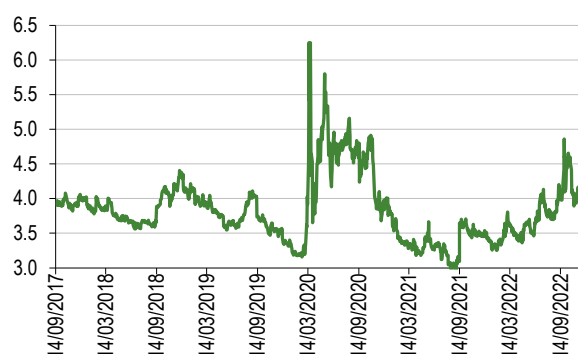
£m unless stated otherwise	H123	H122	H123/H122	FY22
Rental income	20.9	19.7	6.0%	40.1
Other income	0.2	0.2		0.2
Net property operating costs	(1.5)	(1.3)	17.8%	(2.5)
Void costs	(1.5)	(0.9)	60.5%	(2.4)
<b>Net property income</b>	<b>18.1</b>	<b>17.6</b>	<b>2.6%</b>	<b>35.4</b>
Total operating expenses	(2.9)	(2.7)	7.4%	(5.8)
Net finance expense	(4.5)	(3.9)	13.3%	(8.5)
<b>EPRA earnings</b>	<b>10.7</b>	<b>10.9</b>	<b>-2.5%</b>	<b>21.2</b>
Debt prepayment fees	0.0	0.0		(4.0)
Profit on disposal of investment property	0.0	0.0		0.0
Investment property valuation movements	(21.1)	43.0		129.8
<b>IFRS net profit/(loss)</b>	<b>(10.4)</b>	<b>53.9</b>		<b>147.0</b>
EPRA EPS (p)	2.0	2.0	-2.4%	3.9
IFRS EPS (p)	(1.9)	10.0		26.9
DPS declared (p)	1.75	1.70	2.9%	3.45
DPS paid (p)	1.75	1.65		3.38
Dividend cover	1.12	1.21		1.15
Net assets, IFRS & EPRA (£m)	636.4	573.6		657.1
NAV per share, IFRS & EPRA (p)	117	105		120
NAV total return	-1.7%	10.2%		27.9%
Carried value of investment properties	831.3	726.0		830.0
Net LTV	24.1%	21.9%		21.2%

Source: Picton Property Income data, Edison Investment Research

## Valuation

At the current annualised rate of quarterly DPS of 3.5p, Picton's FY23e yield is 4.2%. Meanwhile, the shares trade at a c 23% discount to the Q223 NAV per share of 117p and a 17% discount to our FY23 forecast NAV per share of 101p. The five-year average discount of c 6% is significantly affected by the pandemic and, more recently, the market's derating of the sector due to rising bond yields and economic concerns. As recently as 12 months ago, the shares were trading at a small premium.



**Exhibit 10: Five-year dividend yield (%)**

**Exhibit 11: Five-year price to NAV (x)**


Source: company data, Refinitiv prices

Compared with those companies that we consider to be its closest diversified income-oriented peers, Picton's share price performance is above the peer group average and the broad UK property index over one year and three years. The sector has underperformed the UK equity index over the same periods. Based on 12-month trailing DPS declared, Picton shares trade on a lower yield than the group average, which in part reflects its strategy of balancing sustainable dividends with the capital requirements of active management, as well as relatively low gearing. Picton's P/NAV is above the peer average, which we attribute to its strong track record of property level performance, the future income and valuation growth potential embedded in its portfolio, and its strong balance sheet with relatively modest gearing.

**Exhibit 12: Peer group comparison**

	Price (p)	Market cap. (£m)	P/NAV* (x)*	Trailing yield (%)**	Share price performance			
					1 month	3 months	12 months	3 years
AEW REIT	99	157	0.81	6.0	10%	-5%	-12%	8%
Balanced Commercial Property Trust	93	653	0.67	5.0	-1%	-3%	-9%	-18%
CT Property Trust	72	168	0.59	5.5	1%	-14%	-14%	-12%
Circle Property	224	65	0.82	3.1	7%	-5%	10%	9%
Custodian	93	408	0.81	5.9	4%	-8%	-6%	-18%
Ediston Property	62	132	0.66	8.0	-2%	-13%	-19%	-30%
LondonMetric	181	1778	0.69	5.2	-2%	-13%	-34%	-22%
Palace Capital	214	94	0.55	6.5	1%	-18%	-24%	-26%
Regional REIT	60	307	0.61	11.1	-7%	-10%	-35%	-45%
Schroder REIT	46	224	0.61	6.8	-2%	-4%	-11%	-16%
abrdn Property Income Trust	57	217	0.54	7.0	5%	-18%	-25%	-37%
UK Commercial Property REIT	59	765	0.58	8.8	-6%	-11%	-22%	-28%
<b>Average</b>			<b>0.66</b>	<b>6.6</b>	<b>1%</b>	<b>-10%</b>	<b>-17%</b>	<b>-20%</b>
<b>Picton</b>	<b>84</b>	<b>462</b>	<b>0.72</b>	<b>4.1</b>	<b>-3%</b>	<b>2%</b>	<b>-16%</b>	<b>-8%</b>
UK property sector index	1,350				2%	-10%	-32%	-29%
UK equity market index	4,114				3%	3%	-2%	2%

Source: Company data, Refinitiv prices at 6 December 2022. Note: \*Based on last reported EPRA NAV/NTA. \*\*Based on trailing 12-month DPS declared.

**Exhibit 13: Financial summary**

Year end 31 March (£m)	2020	2021	2022	2023e	2024e
<b>PROFIT &amp; LOSS</b>					
Rental income	37.8	36.6	40.1	42.0	43.3
Other income	1.2	1.5	0.2	0.5	0.5
Service charge income	6.7	5.3	6.2	8.0	8.3
Revenue from properties	45.7	43.3	46.5	50.5	52.0
Property operating costs	(2.3)	(2.4)	(2.5)	(3.0)	(3.0)
Property void costs	(3.0)	(2.2)	(2.4)	(3.0)	(2.7)
Recoverable service charge costs	(6.7)	(5.3)	(6.2)	(8.0)	(8.3)
Property expenses	(12.0)	(9.9)	(11.1)	(14.0)	(14.0)
Net property income	33.6	33.5	35.4	36.5	38.0
Administrative expenses	(5.6)	(5.4)	(5.8)	(6.0)	(6.6)
Operating Profit before revaluations	28.1	28.1	29.7	30.5	31.4
Revaluation of investment properties	(0.9)	12.9	129.8	(108.5)	0.0
Profit on disposals	3.5	0.9	0.0	0.0	0.0
Operating Profit	30.7	41.8	159.5	(78.0)	31.4
Net finance expense	(8.3)	(8.0)	(8.5)	(9.4)	(9.8)
Debt repayment fee			(4.0)		
Profit Before Tax	22.4	33.8	147.0	(-87.4)	21.6
Taxation	0.1	0.0	0.0	0.0	0.0
Profit After Tax (IFRS)	22.5	33.8	147.0	(87.4)	21.6
Adjust for:					
Investment property valuation movement	0.9	(12.9)	(129.8)	108.5	0.0
Profit on disposal of investment properties	(3.5)	(0.9)	(0.0)	0.0	0.0
Exceptional income /expenses	0.0	0.0	4.0	0.0	0.0
EPRA earnings	19.9	20.1	21.2	21.0	21.6
Fully diluted average Number of Shares Outstanding (m)	546.2	546.8	547.3	545.4	545.2
EPS (p)	4.14	6.20	26.93	(16.03)	3.96
EPRA EPS (p)	3.66	3.68	3.88	3.86	3.96
Dividend declared per share (p)	3.25	2.93	3.45	3.50	3.60
Dividends paid per share (p)	3.500	2.750	3.375	3.500	3.575
Dividend cover (x) EPRA EPS/DPS declared	1.13	1.26	1.13	1.10	1.10
Dividend cover (x) - paid dividends	1.05	1.34	1.15	1.10	1.11
Total return	4.4%	6.6%	27.9%	-13.3%	4.1%
EPRA cost ratio (including direct vacancy costs)	28.3%	26.9%	26.0%	28.1%	28.0%
<b>BALANCE SHEET</b>					
Non-current assets	654.5	669.5	834.4	751.6	757.5
Investment properties	654.5	665.4	830.0	747.2	753.2
Other non-current assets	0.0	4.1	4.4	4.3	4.3
Current assets	41.2	42.9	61.4	44.3	42.0
Debtors	17.6	19.6	22.9	26.2	26.2
Cash	23.6	23.4	38.5	18.1	15.8
Current liabilities	(20.4)	(19.9)	(20.3)	(20.4)	(20.4)
Creditors/Deferred income	(19.5)	(18.9)	(19.3)	(19.3)	(19.3)
Current borrowings	(0.9)	(0.9)	(1.1)	(1.1)	(1.1)
Non-current liabilities	(166.0)	(164.4)	(218.4)	(225.2)	(226.1)
Non-current borrowings	(164.2)	(162.7)	(215.8)	(222.7)	(223.6)
Other non-current liabilities	(1.7)	(1.7)	(2.6)	(2.6)	(2.6)
Net assets	509.3	528.2	657.1	550.2	553.0
NAV per share (p)	93	97	120	101	101
EPRA NTA per share (p)	93	97	120	101	101
				27.3	32.1
<b>CASH FLOW</b>					
Operating Cash Flow	21.4	26.0	28.1	(8.0)	(8.9)
Net Interest	(7.9)	(7.5)	(8.1)	0.0	0.0
Tax	0.1	0.1	0.0	(25.7)	(6.0)
Net cash from investing activities	25.0	(1.3)	(33.8)	(19.1)	(19.5)
Ordinary dividends paid	(19.0)	(15.0)	(18.4)	6.1	0.0
Debt drawn/(repaid)	(27.2)	(1.8)	52.2	(1.1)	0.0
Net proceeds from shares issued/repurchased	6.1	(0.6)	(0.7)		
Other cash flow from financing activities			(4.0)		
Net cash from financing activities	(40.1)	(17.5)	29.0	(14.1)	(19.5)
Change in cash	(1.6)	(0.2)	15.2	(20.5)	(2.3)
Opening cash	25.2	23.6	23.4	38.5	18.1
Closing cash	23.6	23.4	38.5	18.1	15.8
Debt as per balance sheet	(165.1)	(163.7)	(216.8)	(223.8)	(224.7)
Un-amortised loan arrangement fees	(2.3)	(2.6)	(2.0)	(1.4)	(0.5)
Closing net (debt)/cash	(143.9)	(142.8)	(180.3)	(207.1)	(209.4)
Net LTV	21.7%	20.9%	21.2%	28.4%	28.4%

Source: Picton Property Income historical data, Edison Investment Research forecasts

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