EDISON

Town Centre Securities

Interim results

Delivering on strategy

Real estate

H119 saw continued progress with unlocking value from the development pipeline, which is particularly focused on offices and residential assets. A challenging retail environment was well managed, occupancy increased, and car parking profits grew. Excluding some short-term factors, EPRA earnings were robust and the DPS well covered, but NAV was negatively affected by weak investor sentiment, particularly for retail assets.

Year end	Net revenue (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NAV/ share* (p)	DPS (p)	P/NAV (x)	Yield (%)
06/17	19.4	7.0	13.2	359	11.5	0.61	5.3
06/18	19.3	6.9	13.0	384	11.8	0.57	5.4
06/19e	20.1	6.4	12.1	363	11.8	0.60	5.4
06/20e	20.4	6.6	12.4	363	12.1	0.60	5.5
06/21e	21.3	7.3	13.8	369	12.5	0.59	5.7

Note: *EPRA EPS is adjusted to exclude revaluation movements, disposal gains/(losses) on investment property and exceptional items.

Robust underlying H119 income performance

The underlying H119 operational performance was robust with overall occupancy increasing to 96%, a 0.9% increase in like-for-like rent roll, and a c 14% increase in car parking operating profits. However, EPRA earnings reduced by 8.8% y-o-y to £3.7m (H118: £4.0m, H218: £3.9m), and EPRA EPS to 6.9p, due to the negative effect of a number of specific items. The unchanged 3.25p interim DPS remained well covered. Retail CVAs/insolvencies reduced H119 income by £0.25m and although much of the space has been re-let, will continue to affect H219. Other development-related voids were also a drag and administrative costs were affected by refinancing activity. NAV was negatively affected by weaker asset values, particularly in retail, with NAV per share falling 6% to 361p (end-FY18: 384p).

Active strategy for income and growth

As a family run business, Town Centre Securities (TCS) has a strong focus on dividend returns and has increased or maintained DPS in each of the last 58 years, while investing for growth. To achieve this, TCS is an active manager of its assets and in the past two to three years has significantly repositioned the portfolio to reduce income risk, particularly in relation to retail exposure, and unlock value from development opportunities. Retail & leisure assets are now 52% of the total versus 70% in 2016, with the remaining rent roll including many good quality tenants, including Waitrose and Morrisons. Refinancing has unlocked capital from JV investments, providing additional resources to proceed with selected development projects from an extensive pipeline of projects, an enormous growth opportunity with a gross value, once funded and developed, estimated by management at more than £590m.

Valuation: Strong dividend commitment

TCS has a fully covered DPS and yields more than 5% while trading at a significant c 40% discount to EPRA NAV. It is strongly committed to dividends while investing for growth and has produced a compound annual average NAV total return of 8.7% since the end of FY13.

25 March 2019

Price	**219p**
Market cap	**£116m**

Net debt (£m) at 31 December 2018 (excluding finance leases)	182.4
Net LTV at 31 December 2018	46.8%
Shares in issue	53.2m
Free float	48%
Code	TOWN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.9	5.3	(20.1)
Rel (local)	(1.3)	(3.9)	(22.6)
52-week high/low		296p	204p

Business description

Town Centre Securities is a UK real estate investment trust operating across the UK, but with a regional focus, primarily in Leeds, Manchester, Scotland and (mainly suburban) London. It also has a car parking operation (CitiPark). The investment portfolio is intensively managed for income and capital growth.

Next events

Payment of interim dividend	21 June 2019

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Edison profile page

Town Centre Securities is a research client of Edison Investment Research Limited

Interim results in brief

Before discussing the TCS investment case in greater detail, for investors who are already familiar with the company we first provide a brief overview of the recent interim results for the six months ended 31 December 2018 (H119).

Exhibit 1: Summary of results

£m unless stated otherwise	H119	H118	% change	FY18
Gross revenue	**15.8**	**15.3**	**3.2%**	**30.2**
Property expenses	(5.8)	(5.4)	5.6%	(10.9)
Net revenue	**10.1**	**9.9**	**1.9%**	**19.3**
Other income/JV profit	0.4	0.4	-4.9%	0.9
JV operating profit	0.6	0.4	74.0%	1.2
Administrative expenses	(3.4)	(2.8)	21.4%	(6.6)
EPRA operating earnings	**7.7**	**7.9**	**-2.1%**	**14.8**
Finance costs	(4.1)	(3.9)	5.0%	(7.9)
EPRA earnings	**3.7**	**4.0**	**-8.8%**	**6.9**
Net result from property portfolio	(12.4)	8.4		11.5
IFRS PBT	**(8.7)**	**12.4**		**18.4**
EPRA EPS (p)	6.9	7.6	-8.8%	13.0
EPRA NAV per share (p)	361	375		384
DPS declared (p)	3.25	3.25		11.75
LTV (%)	46.8%	47.0%		47.5%

Source: Town Centre Securities

The key financial highlights of the H119 results were:

- Group revenues increased, both gross and net, driven by CitiPark. Group net revenue increased by 1.9% to £10.1m and CitiPark by 11.9% to £2.8m (Exhibit 2). Property division net rental income was flat and at the smaller hotel operations it was 40% lower at £0.2m, primarily reflecting the repositioning of the restaurant offering.
- In the property division like-for-like passing rent was up 0.9% y-o-y and end-H119 occupancy increased to 96% (end-FY18: 95%). The time weighted impact of acquisitions (notably The Cube) during the period exceeded the impact of the Rochdale Retail Park disposal late in the period by c £0.4m. Eight retail CVAs/insolvencies in the past year affected 2.5% of rent roll, although six had been re-let by end-H119 with rents on average above previous levels. Temporary voids and letting costs had a £0.25m negative impact in H1 and the remaining vacant units (0.5% of rent roll) will continue to drag until re-let. Vacancy at the Milngavie retail unit, previously let to Homebase, and being subdivided for occupation in H219 by Aldi and Home Bargains, was a c £0.3m drag on rental income y-o-y, although the new agreed rent is 8% above previous levels and supported a 12.5% valuation increase in the property.

Exhibit 2: Segmental summary

	H119				H118				H119/H118
£m	Property	CitiPark	Hotel	Total	Property	CitiPark	Hotel	Total	% change
Gross revenue	8.2	6.2	1.4	15.8	8.0	5.8	1.5	15.3	3.2%
Property expenses	(1.2)	(3.3)	(1.2)	(5.8)	(0.9)	(3.3)	(1.2)	(5.4)	5.6%
Net revenue	**7.1**	**2.8**	**0.2**	**10.1**	**7.1**	**2.5**	**0.3**	**9.9**	**1.9%**
Administrative expenses	(2.9)	(0.5)	0.0	(3.4)	(2.3)	(0.5)	0.0	(2.8)	
Admin expenses as % net revenue	41.0%	17.6%	N/A	33.7%	33.0%	18.1%	N/A	28.3%	
Other income	0.4	0.0	0.0	0.4	0.4	0.0	0.0	0.4	
Share of post-tax profits from joint venture before property gains	0.6	0.0	0.0	0.6	0.4	0.0	0.0	0.4	
Operating profit before property gains	**5.2**	**2.4**	**0.2**	**7.7**	**5.6**	**2.1**	**0.3**	**7.9**	**-2.1%**

Source: Town Centre Securities

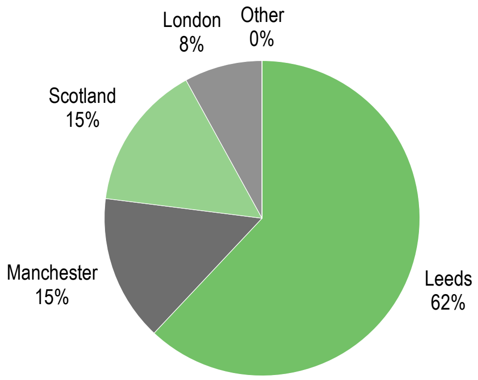
- The year-on-year increase in operating earnings from JVs reflects a full period contribution from the Merrion House development, which completed in February 2018, triggering a step-up in the TCS share of the rental income to the 50% owned JV to £1.7m pa from £0.7m pa, partly offset by the refinancing that released £26.4m to TCS.
- The year-on-year increase in administrative expenses is mainly the result of a number of non-recurring costs in H119, the most significant of which were professional and advisory costs associated with updating Certificates of Title in relation to the complete renewal of banking facilities, and the non-recurrence of a prior year provision release.
- With no material change in average borrowings, the increase in finance costs primarily reflects the impact of rising Libor.
- EPRA earnings were 8.8% lower at £3.7m (H118: £4.0m) and on an unchanged share count, EPRA EPS was 6.9p (H118: 7.6p). The interim DPS was unchanged at 3.25p and was well covered by EPRA earnings.
- The statutory IFRS pre-tax loss of £8.7m (H118: £12.4m) reflects a negative net result from the property portfolio of £12.4m .This comprised a negative unrealised valuation movement on the investment portfolio of £11.2m and a realised loss on disposal of £0.9m, and an impairment of the value of the car park assets of £0.3m. Excluding certain acquisition related items, TCS estimates the like-for-like revaluation movement during the six-month period at a negative 2.2%.
- NAV per share reduced 6.0% compared with end-FY18 to 361p (FY18: 384p).
- The loan to value ratio (LTV) was 46.8% (end-FY18: 47.5%) including the benefit of the Merrion House refinancing. This saw TCS receive £26.4m in cash, representing the net present value of the agreed prepayment of contractual rents to 2043 by its JV partner and tenant at Merrion House, Leeds City Council.

Family controlled with long-term strategy

Regional asset focus and strong dividend record

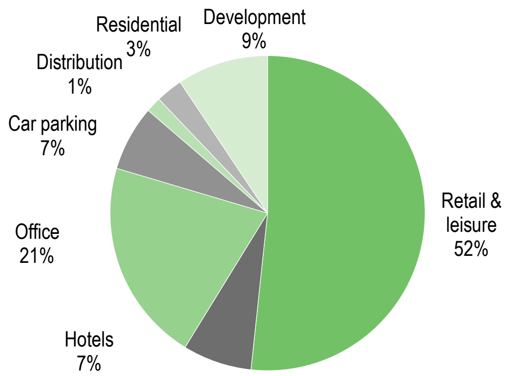
Town Centre Securities (TCS) is a UK Real Estate Investment Trust (REIT) operating a mixed use and increasingly diversified portfolio across the UK, but with a regional focus, primarily in the two strongly performing northern cities of Leeds and Manchester (77%), as well as Scotland and (mainly suburban) London. It also has a car parking operation (CitiPark) that provides a growing and complementary revenue and earnings stream while monetising what would in some cases be empty, non-income producing development assets. The value of its investment properties, developments, joint ventures and car parks at 31 December 2018 (H119) was £368.5m. It is intensively managed, exploiting a strong and detailed knowledge of the communities in which the company operates to generate increasing levels of income, long-term dividend growth and good levels of NAV total return. Over its 58-year history, TCS has established an unbroken record of increased or maintained dividend payments.

Exhibit 3: Portfolio by location at 31 December 2018



Source: Town Centre Securities

Exhibit 4: Portfolio by sector at 31 December 2018



Source: Town Centre Securities

Alignment of interest

TCS was founded in 1959 by Arnold Ziff, father of the current chief executive and chairman, Edward Ziff. The company listed on the London Stock Exchange soon afterwards, in 1960, and became a UK REIT in 2007. Members of the Ziff family continue to have a substantial interest in the company, strongly aligning the interests of management and all shareholders and contributing to the company's long-term strategic horizon, focus on dividend payments and intensive asset management of existing assets. A relationship agreement exists between the Ziff family concert party with a combined shareholding of c 52%, and whose principal shareholders are Edward, his brother, Michael Ziff, and sister, Ann.

The executive team consists of the chairman and chief executive (Edward Ziff), the group finance director (Mark Dilley), the property director (Lynda Shillaw) and the managing director for CitiPark (Ben Ziff, Edward's son). Biographies can be found on page 17. The board of directors consists of eight members, five of whom have been appointed within the past three years. In addition to the executive members, the four non-executive members are Michael Ziff (appointed 2004), Ian Marcus (2014), Paul Huberman (2014), and Jeremy Collins (2018).

Actively managed portfolio

The current developed portfolio primarily consists of commercial assets, particularly retail and leisure assets and, to a lesser extent, offices, but also includes some associated residential assets. TCS has been investing to diversify the sector exposure of the portfolio and current and planned development projects will see the share of low volatility residential assets in particular increase further. Management recognises that property values and income can reach mature levels where the potential for future returns become muted, especially in a lower growth environment and a key element of the strategy for long-term value creation is the recycling of capital from such assets into new opportunities, including an exceptionally strong pipeline of development opportunities from within the existing estate.

Current portfolio summary

Exhibit 5 shows a summary of the total group portfolio including the car parking assets, as at end-H119. Compared with the balance sheet presentation of the assets, the table excludes non-income generating joint ventures and some other accounting adjustments, including for finance leases and goodwill.

Completed, income generating investment properties represent 84% of the total by value (£324.2m) and 87% by estimated rental value, or ERV (£23.1m). Income is also generated by the car parking activities from dedicated car park assets as well as certain land sites earmarked for medium-term development. Investment property ERV was £2.6m (13%) ahead of the passing rent at end-H119, which represents one source of potential income growth from the current portfolio. With end-H119 occupancy already at a good level of 96% (up from 95% at end-FY18), the majority of the reversionary potential is attributable to rent reviews and lease expiry opportunities.

During H119, TCS completed the acquisition of three assets, most notably the acquisition of The Cube and also completed the sale of the Rochdale Retail Park. The Cube is a high yielding mixed use property situated opposite the Merrion Centre in Leeds. The £12m purchase price represents an immediate yield of 12.5% on the passing income and the yield is expected to remain above 9.0% after lease expiries in 2019 and 2020. TCS plans future capex of up to £5m. The £13.2m Rochdale sale, £1.0m below the end-FY19 valuation, is consistent with the company's strategy of recycling mature assets, especially given the mounting pressures on out of town retail assets, and reduces retail income and valuation risk further.

Exhibit 5: Portfolio summary as at 31 December 2018 (H119)

	Passing rent (£m)	ERV (£m)	ERV (%)	Value (£m)	Value (%)	Initial yield (%)	Reversionary yield (%)
Retail & leisure	3.8	4.2	16%	66.7	17%	5.4%	6.0%
Merrion Centre (exc office)	7.3	7.8	29%	92.7	24%	7.4%	7.9%
Offices	5.4	5.9	22%	80.4	21%	6.4%	7.0%
Hotel	1.2	1.6	6%	27.4	7%	4.1%	5.6%
Out of town retail	1.8	2.5	9%	40.2	10%	4.1%	5.8%
Distribution	0.4	0.4	2%	6.1	2%	6.3%	6.6%
Residential	0.6	0.6	2%	10.6	3%	5.5%	5.6%
Total investment properties	**20.5**	**23.1**	**86%**	**324.2**	**84%**	**6.0%**	**6.7%**
Development property (car park income)	2.0	2.0	8%	36.2	9%		
Car parks	1.5	1.5	6%	25.9	7%		
Total portfolio (%)	**24.0**	**26.6**	**100%**	**386.3**	**100%**		

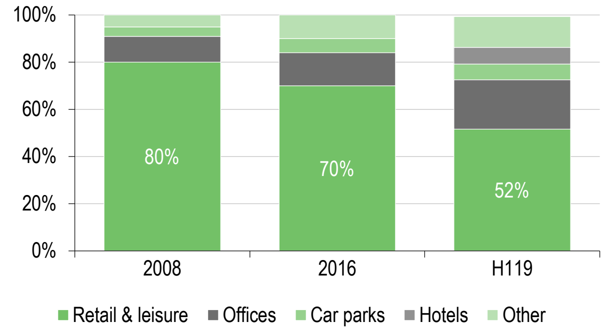
Source: Town Centre Securities

In terms of overall portfolio positioning, retail and leisure (combining 'retail & leisure', 'the Merrion Centre' and 'out of town retail' in Exhibit 5) remains the single largest sector weight in the portfolio but has been actively reduced to 52% (from 70% two years ago). Geographically, the strongly performing cities of Leeds and Manchester combined represent 77% of the portfolio by value and remain core to that strategy, and home to the majority of the group's extensive pipeline of development opportunities that should be a major driver of future growth.

Retail exposure has fallen materially

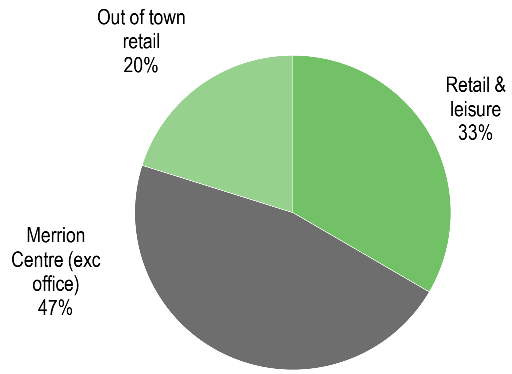
The significant, and ongoing, repositioning of the portfolio, driven by capital recycling and the group's development programme, can be clearly seen in Exhibit 6. In the two and a half years, since the end of FY16, nine properties have been sold for £46m (11% of the portfolio), including the sale of Rochdale Retail Park, and six properties have been acquired for £29m. Three of these acquisitions, amounting to £16m, occurred during H119. A further £30m has been invested into development projects (eg the recently completed ibis Styles and Premier Inn hotels in Leeds, and the Merrion House redevelopment).

Exhibit 6: Increasingly diversified portfolio



Source: Town Centre Securities. As at 31 December 2018

Exhibit 7: Spread of retail & leisure assets



Source: Town Centre Securities. As at 31 December 2018

TCS is not exiting retail, and while it has reduced the overall exposure it remains committed to investing the appropriate formats in the right locations. The Merrion Center, the group's single largest asset, is well placed in the centre of Leeds. It has been transformed over the past 10 years from a shopping centre to truly mixed-use destination. Delivery of the Merrion House office development (February 2018) and the ibis Styles hotel with restaurant (April 2017) have continued the process, with reliance on traditional 'mall' retail falling to less than 25%. Although not immune to retail pressures, the speed with which TCS has been able to re-let vacated space on improved terms is an encouraging indicator of the robustness of the asset. TCS also plans further diversification of the centre and is developing plans that would potentially see the building of a new office tower above part of it.

More generally we would point to the diversification of the retail tenant base, with the 10 retail tenants representing more than 50% of overall retail rents. These include a number of strong tenant covenants including Waitrose and Morrisons (almost one-third of retail rents in aggregate). Rents are mostly collected a quarter in advance, and across the portfolio 97% of collections typically occur within four days of the quarter start.

Retail drove H119 revaluation losses

On a like-for-like basis the portfolio decreased in value by c £8.1m or 2.2% during H119. Within this, the development site valuation was flat, with the valuation changes occurring in investment assets. The investment assets saw a 2.5% like-for-like decline (also £8.1m), focused on the retail assets, which saw a 4.3% reduction in value. With good levels of occupancy maintained, and like-for-like rental growth being achieved, the changes were driven by yield shifts.

Exhibit 8: H119 like-for-like valuation movement

	Valuation* (£m)	Like-for-like movement (£m)	Like-for-like movement (%)
Merrion Centre (ex offices)	92.7	(5.3)	-5.5%
Other retail	98.6	(3.3)	-3.3%
Hotels	27.4	0.3	0.9%
Offices	65.8	0.4	0.7%
Residential	10.6	(0.2)	-2.1%
Distribution	6.1	0.4	6.8%
Development sites	36.2	(0.0)	-0.1%
Car parks	25.9	(0.3)	-1.1%
Like-for-like total	**363.4**	**(8.1)**	**-2.2%**

Source: Town Centre Securities. Note: *Like-for-like assets only, held throughout the period.

The income statement revaluation movement of negative £11.2m includes c £2m of post-acquisition valuation adjustments at Ducie House and c £1m at The Cube as well as a small amount of acquisition costs. The acquisition of Ducie House for £9.0m in May 2018 included certain strategic considerations including the potential for the development of its car park as well as the ability to eliminate a right of light claim (estimated at £1.5m) by the previous owners in relation to TCS's adjacent Eider House development. The end-H119 valuation of Ducie House reflects its investment property value without reflecting the future potential upon which its acquisition has been based.

The post-acquisition adjustment at The Cube reflects the approach of the anticipated lease expiries, and does not capture any potential benefit from TCS's asset management plans.

In our forecasts we are not assuming future revaluation movements, either positive or negative. As a result of faltering growth and protracted Brexit uncertainty investors have become more cautious on future property returns, especially for retail assets where many tenants and locations face their own mix of structural and cyclical pressures. Whereas the regional office market continues to benefit from robust occupational demand and a lack of new supply, there is a widespread consensus that trading conditions for the retail sector will continue to be challenging. Further retail CVAs and administrations are a real prospect, and the fate of Debenhams, the largest occupier of non-food floor space in the UK, will be closely watched. However, we note that TCS has no exposure to Debenhams or other major high street retailers. For properties across the UK, the UK Consensus Forecasts published by the Investment Property Forum is pointing to weaker capital values in 2019 for all sectors other than industrial assets. After income returns, this still translates into a negative annual total return for retail assets (-5.3% capital growth and -1.1% total return; for standard retail; -8.2/-3.4% for shopping centres; and -6.5%/-1.0% for retail warehouses). Fundamentally, the picture is very mixed across the retail sector, and a strong investment case can be made for assets that are sensibly priced, trading well, and meeting the needs of their catchment areas. For this reason, we would caution against making any direct read-across from the national consensus view to TCS's specific assets, but the potential headwind to valuations is clear, even where the assets continue to provide a robust income performance. We discuss the sensitivity of our forecasts to potential valuation movements on page 13.

Extensive growth opportunity from existing portfolio

TCS has a very significant pipeline of development opportunities within its current portfolio, much of it with detailed planning consent or forming part of the local strategic framework (Exhibit 9). This represents significant potential for future growth in income and capital, subject to financing. Including the Burlington House residential development that is nearing completion, the pipeline projects now represent a potential gross development value of more than £590m with income estimated by management at £34.5m. The majority of the projects by value are situated within two strategic development sites in Manchester (Piccadilly Basin) and Leeds (Whitehall Road), two strong regional markets. Other projects include further developments at the Merrion Centre. The pipeline has continued to strengthen, most recently with the addition of Ducie House in Manchester, which offers the opportunity of a development on its car park. In Leeds, TCS has also now submitted a scheme to planning for a 17-storey office development above a disused cinema at the Merrion Centre.

The projects are listed in Exhibit 9 in line with management's current best view of the likely order in which they may proceed, although this is subject to material variation according to changes in the marketplace. Our forecasts reflect those projects that management expects to commence in the near term. Taken as a whole, the pipeline represents a significant financing requirement and management continues to explore how best to achieve this and unlock the value. Certainly we expect the TCS funding requirement will be managed by continuing to spread the developments over time, the use of joint ventures, and capital recycling (selling some assets on completion to fund ongoing investment). Notwithstanding the funding challenge, the opportunity for continued value creation from intensive asset management is clear. Working back from management's expectations for yield on cost, the implied development profits are more than £85m.

As discussed below, in addition to completing the Burlington House private sector residential (PRS) project (expected in May 2019), our forecasts allow for a second PRS scheme at Eider House, and the George St aparthotel JV with Leeds City Council, which has now received detailed planning consent, to be completed before the end of our forecasting period (FY21), but with little income impact in the period. We also include capital expenditure (and temporary loss of car parking income) in respect of the Whitehall Rd, Leeds car park, but again completion comes too late to contribute to income.

Exhibit 9: Pipeline of development opportunities*

Project	Development type	Status	Structure	Estimated gross development value (GDV) (m)	Estimated income potential (m)	Estimated yield on cost
Burlington House (at 50% share)	**Residential**	**Underway, JV**	**JV**	**£12**	**£0.6**	**4.9%**
George Street (at 50% share)	Leisure	Detailed planning, JV	JV	£12	£0.6	6.4%
Eider House	Residential	Detailed planning		£40	£2.6	6.8%
Leeds car park	Car park	Detailed planning		£14	£1.2	8.6%
Merrion cinema	Office	Detailed scoping		£62	£4.0	7.3%
Whitehall Road No. 2	Office	Detailed planning		£82	£5.0	7.5%
Whitehall Road No. 3	Office	Strategic framework		£40	£2.8	8.6%
Whitehall Road No. 7	Office/leisure	Strategic framework		£28	£2.0	8.6%
Manchester residential tower A	Residential	Strategic framework		£82	£3.5	5.2%
Manchester residential tower B	Residential	Strategic framework		£55	£2.4	5.2%
Manchester residential D	Residential	Strategic framework		£28	£1.1	4.9%
Ducie House	Residential/mixed use	Un-scoped		£12	£0.8	8.0%
Manchester commercial	Mixed use	Strategic framework		£76	£5.0	7.9%
Manchester car park	Car park	Strategic framework		£12	£0.8	7.2%
Merrion corner tower	Residential	Un-scoped		£50	£3.0	6.4%
Total				**£592**	**£34.5**	

Source: Town Centre Securities. Note: *Management estimates for illustrative purposes and subject to material variation including from changes in the scope of works.

TCS has a growing car park operation (CitiPark)

The TCS car parking operation, known as CitiPark, is a material contributor to the group, generating c 28% of H118 net revenues and c 31% of operating profits. To support its growth, CitiPark has invested in technologies to improve its customer service, operational efficiency and marketing reach. We believe that it provides a number of benefits to the group, including:

- Providing additional, low capital intensive and relatively low volatility recurring income and cash flow, particularly during a development phase for the investment portfolio.
- Generating income from development sites in the period, sometimes several years before development takes place.
- Adding general diversification to the group in the context of a commercial property sector where returns, especially capital value returns, are likely to remain cyclical over the long term.

TCS has a strategic investment (c £2m in loans and equity) in fast growing, non-listed YourParkingSpace.co.uk (YPS), in which it has a 15% stake. YPS is an on-demand parking service that connects drivers with more than 250,000 parking spaces across the UK via its website and mobile application. TCS is excited about the growth potential for YPS and the possibilities for the two businesses to work together, and says that YPS continues to deliver promising results.

Financials

In this section we provide a detailed update on our multi-year financial forecasts. A summary of our forecast revisions is shown in Exhibit 10, with reduced recurring EPRA earnings (a mix of revenue and cost factors) and NAV (the H119 revaluation moves and a more cautious outlook) in each of the years. Both are negatively affected by pushing back development activity, which defers the income and potential development benefits into FY22, outside the forecast period. However, we have not changed our DPS forecasts, which we expect to be fully covered by EPRA earnings. Moreover, we show how existing capital resources (equity and debt facilities) should be adequate to meet our development funding assumptions.

Exhibit 10: Summary of changes in group forecasts

	Net revenue (£m)			EPRA EPS (p)			DPS declared (p)			EPRA NAV/share (p)			LTV (%)		
	New	Old	% change	New	Old	% change	New	Old	% change	New	Old	% change	New	Old	% change
06/19e	20.1	20.5	(1.9)	12.1	12.9	(5.9)	11.8	11.8	0.0	363	392	(7.5)	47.6	45.9	3.6
06/20e	20.4	20.9	(2.3)	12.4	13.5	(8.1)	12.1	12.1	0.0	363	399	(9.0)	49.8	47.4	4.9
06/21e	21.3	21.2	0.3	13.8	14.3	(4.0)	12.5	12.5	0.0	369	418	(11.8)	51.2	48.0	6.8

Source: Edison Investment Research

Continued repositioning of the investment portfolio

A summary of our earnings forecasts for the property rental segment is shown in Exhibit 11. Our assumptions include:

- For the rental income base, we take the disclosed portfolio annualised contracted rent on standing assets of £20.5m at end-H119 and adjust for the Merrion House car park (reported within CitiPark), the ibis Styles Hotel (reported separately) and Merrion House (reported within JVs). The adjusted annualised rental base for the segment is £16.5m. This is an increase from £16.1m at end FY18, which primarily reflects the balance of acquisitions and disposals.
- We expect the annualised contracted rental base to be lower at FY19 year end (c £15.9m) as a result of the planned temporary reduction in occupancy and rents from The Cube during refurbishment (c £1.3), partly offset by re-letting at Milngavie (c £0.6m), although the impact is not seen in the income statement until H220. We look for occupancy and rental income to rebuild at The Cube from H220 through FY21, reaching an annualised contribution of c £1.3m in H221.
- During FY21 and FY22 we assume modest £0.2m pa growth in annualised contracted rental income representing rental growth/general occupancy improvement. We would expect the remaining void space relating to retail CVAs/administrations to be reduced over this period.
- The reductions to our forecast gross revenues are mainly timing effects, and include a slight delay in re-letting Milngavie, a slightly larger reduction in the temporary rent reduction at The Cube, and the assumption that the remaining retail CVA/administration voids at end-H119 are slow to be re-let. Our end-FY21 annualised contracted rent is now £17.4m compared with £17.6m previously.
- The JV contribution is discussed separately below.
- We are no longer assuming any changes in valuation for the wholly owned assets, although the H119 reported movement is included in the FY19 forecast.

Exhibit 11: Property rental segment forecast

		Current forecasts			Previous forecasts		
£m	**FY18**	**FY19e**	**FY20e**	**FY21e**	**FY19e**	**FY20e**	**FY21e**
Gross revenue	15.9	16.3	16.1	17.1	17.1	17.1	17.6
Total property expenses	(2.0)	(2.3)	(2.1)	(2.1)	(2.1)	(2.0)	(2.1)
Net revenue	**13.9**	**14.1**	**14.1**	**15.0**	**15.0**	**15.1**	**15.6**
Administrative expenses	(5.6)	(6.3)	(6.2)	(6.4)	(5.9)	(6.1)	(6.2)
Other income	0.9	0.6	0.4	0.4	0.4	0.4	0.4
Share of post-tax profits from joint venture	1.2	1.0	1.0	1.3	1.0	1.1	1.6
Operating profit before valuation movements	**10.3**	**9.4**	**9.3**	**10.4**	**10.5**	**10.5**	**11.4**
Valuation movement on investment properties	5.9	(11.2)	0.0	0.0	1.9	2.9	3.0
Profit on disposal of investment property	1.7	(0.9)	0.0	0.0	0.0	0.0	0.0
Valuation movement on properties held in joint venture	2.6	0.0	0.0	2.1	2.0	0.0	5.9
Operating profit	**20.5**	**(2.7)**	**9.3**	**12.5**	**14.4**	**13.4**	**20.3**

Source: Town Centre Securities, Edison Investment Research

Eider House deferred due to planning revisions

The JV contribution included within the property segment forecast includes Merrion House, the on-site development at Burlington House, and planned developments at George Street and Eider House.

Management expects the Burlington House development to complete in May 2019. We then expect the 50:50 JV to generate c £0.6m pa of rental income (TCS share) and c £270k of earnings after JV borrowing costs. Based on management's revised £22.6m GDV, which is lower to reflect its being held as a PRS asset, we no longer forecast a development gain on completion.

The main change to our overall JV forecasts is to defer development at Eider House by around a year. TCS has confirmed that it expects to proceed as a JV but is exploring a change to the detailed planning consent, potentially increasing the number of residential units to 149 from 128. We now allow for construction work to start early in H220 (was H219), completing late in H221, too late to contribute towards FY21 income or development gains in the forecast period.

Our Merrion House forecasts reflect the refinancing that occurred early in H119 whereby it received £26.4m in cash upfront in settlement of its future contracted rental entitlement. The forecast earnings reflect the continuing accounting recognition of the TCS rent entitlement, partly offset by an interest charge on the prepayment calculated on an effective interest rate basis.

We have also slightly delayed the start date for the construction of the George Street development, by around six months, to early H120, with completion early in H221. The 50:50 JV development is expected to generate c £0.6m pa of rental income (TCS share) and assuming no debt within the JV, we expect a similar level of earnings. As the project has progressed, TCS now indicates a higher GDV at completion and our forecast development gain is now £2.1m (was £0.9m) in H221.

Exhibit 12 summarises our updated forecasts for the JV capital, income and valuation movements in respect of the developments contained in our forecasts.

Exhibit 12: Summary of JV forecasts

	Current forecasts			Previous forecasts		
£m	**FY19e**	**FY20e**	**FY21e**	**FY19e**	**FY20e**	**FY21e**
TCS investment in JV in period						
Merrion House	0.0	0.0	0.0	0.0	0.0	0.0
Burlington House	0.0	0.0	0.0	0.0	0.0	0.0
Eider House	0.0	3.0	6.0	1.0	5.0	1.0
George St	0.0	7.5	1.9	2.5	5.0	1.6
Total TCS investment in JV in period	**0.0**	**10.5**	**7.9**	**3.5**	**10.0**	**2.6**
TCS share of recurring earnings before property gains						
Merrion House	1.0	0.8	0.8	1.0	0.8	0.8
Burlington House	0.0	0.3	0.3	0.0	0.3	0.3
Eider House	0.0	0.0	0.0	0.0	0.0	0.2
George St	0.0	0.0	0.3	0.0	0.0	0.3
Total TCS share of recurring earnings before property gains	**1.0**	**1.0**	**1.3**	**1.0**	**1.1**	**1.6**
TCS share of JV property gains						
Merrion House	0.0	0.0	0.0	0.0	0.0	0.0
Burlington House	0.0	0.0	0.0	2.0	0.0	0.0
Eider House	0.0	0.0	0.0	0.0	0.0	5.0
George St	0.0	0.0	2.1	0.0	0.0	0.9
Total TCS share of JV property gains	**0.0**	**0.0**	**2.1**	**2.0**	**0.0**	**5.9**

Source: Edison Investment Research

Hotel performance reflects restaurant repositioning

The ibis Styles hotel is situated within the Merrion Centre and opened in April 2017. The hotel and restaurant incorporated within is operated under external contract. Management says that the hotel operations have traded well, exceeding expectations, but the original restaurant format struggled and has been repositioned, negatively affecting H119 performance by £0.1m. The success of competing local independent restaurants indicates there is local demand for the right offering, and positively the new format restaurant has received favourable early reviews. Our forecasts are unchanged, anticipating a rather flat year this year with performance continuing to build up to FY21.

Exhibit 13: Forecasts for hotel segment

		Current forecasts			Previous forecasts		
£m	**FY18**	**FY19e**	**FY20e**	**FY21e**	**FY19e**	**FY20e**	**FY21e**
Gross revenue	2.8	2.8	3.1	3.3	2.8	3.1	3.3
Total property expenses	(2.3)	(2.4)	(2.5)	(2.6)	(2.4)	(2.5)	(2.6)
Net revenue	**0.5**	**0.4**	**0.6**	**0.7**	**0.5**	**0.6**	**0.7**
Valuation movement on investment properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit	**0.5**	**0.4**	**0.6**	**0.7**	**0.5**	**0.6**	**0.7**

Source: Edison Investment Research

Car parking (CitiPark) growth forecast increased

Based on a continuing strong performance in H119, we have increased our forecasts for operating profit before valuation movements by c £0.5m pa over the forecast period. Our forecasts look for c 4% pa underlying revenue growth off a stronger than previously assumed revenue base. We expect a temporary loss of c £0.6m pa of revenue for 12 months (from the beginning of H221) while the Whitehall Road, Leeds car park site is partly decommissioned in order to construct a new multi-storey car park. The temporary closure negatively affects our FY21 forecast by c £0.3m, while revenue benefits expected from the new car park fall outside our forecasting period. Management's revised development pipeline data suggests that the eventual uplift may be greater than the c £0.6m that we had previously assumed.

Exhibit 14: Forecasts for CitiPark segment

		Current forecasts			Previous forecasts		
£m	**FY18**	**FY19e**	**FY20e**	**FY21e**	**FY19e**	**FY20e**	**FY21e**
Gross revenue	11.5	12.4	12.7	12.8	11.8	12.2	12.2
Total property expenses	(6.5)	(6.7)	(6.9)	(7.1)	(6.8)	(7.0)	(7.2)
Net revenue	**5.0**	5.6	5.8	5.6	**5.0**	**5.3**	**5.0**
Administrative expenses	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Operating profit before valuation movements	**4.0**	4.6	4.8	4.6	**4.1**	**4.3**	**4.0**
Reversal of impairment of car parking assets	1.3	(0.3)	0.0	0.0	0.0	0.0	0.0
Operating profit	**5.3**	4.3	4.8	4.6	**4.1**	**4.3**	**4.0**

Source: Edison Investment Research

Merrion House refinancing increased funding flexibility

Although we have reduced both earnings and NAV expectations through FY21, our analysis indicates that post the Merrion House refinancing TCS continues to have adequate financial resources to fund the distributions and development activity that we have assumed.

Total financial liabilities at end-H119 were £187.1m, comprising a blend of £105.9m of long-term fixed-rate borrowing (5.375% First Mortgage Debenture Stock 2031), £76.8m of revolving bank credit facilities (including a £5m overdraft facility), and finance leases amounting to £4.4m. We focus on the amount ('gross borrowing') excluding the finance leases (£182.7m).

There are three revolving bank debt facilities, all recently extended or renewed with no material impact on the cost of borrowing. A facility with RBS was extended to 2021, Lloyds refinanced with a new three-year facility to 2021, and Handelsbanken refinanced with a new five-year facility to 2023. The aggregate of the bank facilities is £103m, and including the debenture the total existing debt facility, excluding the £5m overdraft, is c £209m.

The weighted average maturity of the debt at 31 December 2018 was 8.1 years with a weighted average cost of debt of 4.2%. Adjusting for the £13.2m cash proceeds of the Rochdale Retail Park sale that were paid in early January 2019, the LTV was 46.8% (end-FY18: 47.5%).

The £26.4m net inflow from the Merrion House refinancing had a significant impact on the H119 funding position. This is included in the 'distributions from JV' line in Exhibit 15. This shows a summary of our forecasts for TCS cash flow and borrowing requirements during the forecast period. Over the three-year period, we expect operational cash flow to more than cover dividends paid. Gross new direct (wholly owned) portfolio investment is forecast at £42.4m and gross investment in JVs is forecast at an aggregate £66.0m. The JV investments are shown in Exhibit 12 above and our gross direct investment includes the purchases completed in H119, recurring capex of £2.0m pa, investment in The Cube of £5.0m, and initial investment in the Whitehall Road, Leeds car park of £5.0m in H221 (we anticipate a further £5.0m in FY22, although this is outside our forecast period). Almost half of the £60.0m direct and JV investment is offset by distributions from the JVs, substantially reflecting the Merrion House refinancing, and around half of the balance is offset by the H119 disposals (we assume no others although they are quite likely). This leaves a net funding requirement of £16.6m (from end-FY18 to end-FY21), which in our forecasts is met by £14.0m of new borrowing and a £2.6m reduction in the start of period cash balance. The additional borrowing takes forecast gross borrowing, which can be seen in the group financial summary (Exhibit 19), to £207.7m by end-FY21, an increase from £193.6m at the FY18. Given that the debt facilities are secured by individual properties charged to each facility, it may be challenging for TCS to increase borrowing to this level under the existing facilities. If necessary, management could adapt by asset disposals or spreading the investment plans.

Exhibit 15: Summary of cash flow and borrowing requirements				
£m	FY19e	FY20e	FY21e	Cumulative FY19–21e
Operating cash flow	6.5	6.8	7.0	20.2
Gross direct portfolio investment	(29.4)	(6.0)	(7.0)	(42.4)
Gross investment in JV	(0.2)	(10.5)	(7.9)	(18.6)
Distributions from JV	28.5	1.0	0.6	29.0
Proceeds from disposal of investment property	17.2	0.0	0.0	17.2
Other cash flow from investing activity	(1.2)	(0.9)	(0.9)	(3.0)
Dividends	(6.2)	(6.3)	(6.5)	(19.0)
Net funding requirement	**15.2**	**(15.9)**	**(14.8)**	**(16.6)**

Source: Edison Investment Research

Sensitivity to asset price changes

As noted above, we are not assuming any changes in property values in our forecasts but do include potential development profits, where appropriate, in respect of the development projects. This amounts to £2.1m (TCS share, in FY21 in respect of the George St development).

During H119, the like-for-like unrealised movement in the TCS portfolio value was 2.2%. As noted above, the Investment Property Forum Consensus (Autumn 2018) is for 2019 UK-wide capital values in all of the main property types, other than industrial, and especially in retail. Of course, any individual asset should be expected to vary considerably from this, particularly relating to its quality, location and tenant covenant.

By way of illustration, should valuations reduce further, each 1% decline in like-for-like portfolio valuation is equivalent to £3.6m or 6.8p per share. A similar like-for-like valuation decline in H219 to the -2.2% H119 movement would negatively affect valuations by £8.0m and NAV per share by c 15p.

In Exhibit 16 we show a range of potential outcomes, both for the impact of NAV should valuations decline further, as well as on LTV. For illustrative purposes we show the rather extreme example of a 10% decline. It is important to note that this is a static sensitivity that allows nothing for management actions.

Exhibit 16: LTV and NAV per share sensitivity to valuation

	LTV				EPRA NAV per share (p)		
Cumulative change in valuation from H119	FY19e	FY20e	FY21e		FY19e	FY20e	FY21e
No change (as shown in forecast)	47.6%	49.8%	51.2%		363	363	369
-1%	48.1%	50.3%	51.7%		356	356	361
-2%	48.6%	50.8%	52.3%		349	349	353
-3%	49.1%	51.3%	52.8%		342	341	346
-4%	49.6%	51.8%	53.3%		335	334	338
-5%	50.1%	52.4%	53.9%		328	327	330
-10%	52.9%	55.3%	56.9%		293	290	292

Source: Edison Investment Research

In terms of borrowing covenants, it is disclosed by TCS that the debenture debt has a collateral requirement of 1.67x with temporary flexibility down to 1.5x, suggesting that c £185m of collateral would be a comfortable target. Excluding this from chargeable assets of, say, c £340m (we understand that there are a few that are not chargeable) would leave perhaps £155m to support the bank debt. Based on the end-H119 drawn bank debt, the LTV implied by our analysis is a comfortable c 50% compared to what we believe would be a requirement of between 60–65%. By FY21 we look for bank borrowing to increase to c £103m, which based on our current estimate of chargeable assets would imply some use of the debenture covenant flexibility. If we assume full use of the debenture flexibility down to 1.5x cover, we estimate that our c £102m FY21 bank borrowing requirement should be supportable so long as chargeable asset values fall no more than c £15m or

4–5%. Beyond that we believe management may have to consider additional asset sales, deferral of some development activity, or other measures. We estimate interest cover at c 1.7x.

Valuation

TCS has a strong focus on growing portfolio income to support its long-term progressive dividend policy, although its active asset management strategy, aimed at enhancing long-term total return, means it is not focused on yield maximisation over the shorter term. In this context we think it informative to examine NAV total return performance (the change in NAV per share plus dividends paid). The aggregate NAV total return over the five and a half years to end-H119 is 58.6%, including the negative unrealised valuation effects in H119. This represents a compound annual total return of 8.7%. It is worth noting that 40% of the total return generated over the period is attributable to dividends paid.

Exhibit 17: NAV total return history

	FY14	FY15	FY16	FY17	FY18	H119	FY14–H119 cumulative
Opening NAV per share (p)	267	308	344	357	359	384	267
Closing NAV per share (p)	308	344	357	359	384	361	361
Dividend per share (p)	10.44	10.44	10.44	11.15	11.5	8.5	62.5
NAV total return (%)	19.4%	15.0%	6.9%	3.8%	10.0%	-3.8%	58.6%
Compound annual return (%)							**8.7%**

Source: Company data, Edison Investment Research

The investment in portfolio repositioning and development required to generate these returns is a limiting factor on immediate dividend distributions, but TCS has a long and consistent track record of dividend payments, increasing or at least maintaining DPS in each of the past 58 years, including during the last downturn in 2008. The shares provide a 5.3% yield and are trading at a significant discount to NAV of c 40%.

In Exhibit 18 we show a summary valuation comparison of TCS with what we consider to be a group of peers from within the broad property sector, including companies focused on regional property and those with retail exposure.

Exhibit 18: Peer comparison table

	Price (p)	Market cap. (£m)	P/NAV (x)	Yield (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Capital & Regional	25	182	0.42	9.7	-20%	-14%	-54%	-56%
Custodian REIT	113	450	1.05	5.8	-2%	-3%	-1%	-8%
Hammerson	344	2634	0.47	7.5	-7%	3%	-38%	-40%
Helical	354	423	0.75	2.7	5%	12%	6%	-11%
Intu	106	1433	0.36	4.3	-5%	-10%	-49%	-52%
McKay Securities	244	230	0.75	4.1	3%	-2%	-2%	-16%
Mucklow	510	323	0.89	4.5	2%	4%	-4%	-11%
NewRiver REIT	221	674	0.78	9.7	4%	6%	-25%	-28%
Palace Capital	291	134	0.69	6.5	-3%	-8%	-9%	-20%
Picton	88	476	0.96	4.0	-1%	4%	6%	-5%
Real Est Inv	52	97	0.74	6.7	2%	1%	-6%	-16%
Regional REIT	103	384	0.91	7.8	-1%	13%	6%	-3%
St Modwen	410	913	0.85	1.7	4%	5%	5%	-5%
Schroder REIT	55	283	0.79	4.6	-7%	-2%	-10%	-19%
Average			**0.74**	**5.7**	**-2%**	**1%**	**-12%**	**-21%**
Town Centre Sec.	**218**	**116**	**0.60**	**5.4**	**0%**	**5%**	**-22%**	**-26%**
UK property index	1,712			5.1	1%	9%	-3%	-9%
FTSE All-Share Index	3,982			4.6	1%	9%	4%	-8%

Source: Company data, Edison Investment Research. Note: Based on last reported EPRA NAV and trailing 12-month DPS declared. Prices as at 22 March 2019

The group as a whole trades at a very slight yield premium to TCS but also at a higher P/NAV. Over the past 12 months the TCS share price performance has been weaker than the group average, which we ascribe to weak investor sentiment towards retail exposure. That said, TCS's performance is notably stronger than that of purer retail plays, with significant shopping centre exposure, such as Capital & Counties, Hammerson, and Intu, which we believe is entirely justified by the more diversified nature of its portfolio. TCS provides an attractive yield, with a strong management commitment to dividends and an alignment of interest between management and shareholders. Additionally, its regional focus (Leeds and Manchester), increasingly diversified portfolio, and significant development opportunities for further growth are all potential catalysts for a re-rating.

Sensitivities

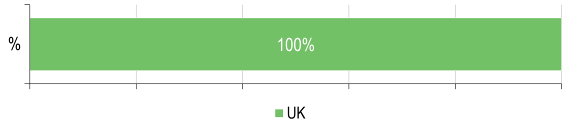
The commercial property market is cyclical, historically exhibiting substantial swings in valuation through cycles. Income returns are significantly more stable, but fluctuating with tenant demand and rent terms. For TCS we would highlight the near-term cyclical risks attached to retail-focused property and the increased risks and uncertainties that attach to development activity, including planning consents, timing, construction risks and the long lead times to completion and eventual occupation. We consider the main sensitivities include:

- Sector risk: Some of the inherent cyclical risk to vacancy in commercial property can be mitigated by portfolio diversification across property types, locations and tenants. TCS has a good track record of occupancy (96% at end-H119) and we expect the sectoral diversity of the portfolio to further increase, including the build-up of lower volatility residential assets. The car parking business (31% of H119 operating profit before valuation movements) is a less cyclical, cash-generative business and we expect it to grow further.
- Development risk: Although we expect asset management and development projects to continue to be a driver of property income growth and capital returns, active projects represent a relatively low share of the overall portfolio at any point in time. Many are undertaken with joint venture partners, spreading investment risk, and all are undertaken by external contractors to whom most of the construction risk passes.
- Macro risk:
  - Brexit uncertainty is weighing on UK growth expectations. The Office for Budget Responsibility recently reduced its UK GDP growth forecast to 1.2% for 2019 (from 1.6%), which would represent the lowest level since the global financial crisis. However, it left its 2020 forecast unchanged at 1.4% and increased its 2021 forecast from 1.4% to 1.6.
  - Interest rate risk: The fixed rate debenture debt provides TCS with long-term interest rate protection. However, the floating rate bank debt would more quickly adjust to higher market rates. An increase in longer-term rates would be more likely to have a knock-on effect on NAV over time, through increased property yields.

Exhibit 19: Financial summary

Year ending 30 June (£000s)	2015	2016	2017	2018	2019e	2020e	2021e
INCOME STATEMENT							
Gross revenue	22,714	26,265	27,540	30,178	31,479	31,922	33,077
Total property expenses	(5,248)	(7,661)	(8,148)	(10,896)	(11,403)	(11,497)	(11,794)
Net revenue	17,466	18,604	19,392	19,282	20,076	20,425	21,283
Administrative expenses	(5,321)	(5,493)	(6,295)	(6,574)	(7,302)	(7,219)	(7,385)
Other income	1,468	599	707	888	625	400	400
Valuation movement on investment properties	14,791	3,018	(2,085)	5,932	(11,227)	0	0
Reversal of impairment of car parking assets	0	500	1,000	1,300	(300)	0	0
Profit on disposal of investment property	236	1,140	303	1,677	(856)	0	0
Share of post- tax profits from joint venture	2,621	1,400	1,342	3,757	1,025	1,045	3,445
Operating profit	31,261	19,768	14,364	26,262	2,040	14,650	17,743
Net finance costs	(7,258)	(7,847)	(7,639)	(7,887)	(7,984)	(8,068)	(8,333)
PBT	24,003	11,921	6,725	18,375	(5,944)	6,582	9,410
Tax	0	0	0	0	0	0	0
Net profit	24,003	11,921	6,725	18,375	(5,944)	6,582	9,410
Adjustments to EPRA:							
Valuation movement on investment properties	(14,791)	(3,018)	2,085	(5,932)	11,227	0	0
Reversal of impairment of car parking assets	(5,013)	(500)	(1,000)	(1,300)	300	0	0
Valuation movement on properties held in joint ventures	0	(668)	(471)	(2,561)	0	0	(2,100)
Profit on disposal of investment/development properties	(236)	(1,140)	(303)	(1,677)	856	0	0
(Profit)/Loss on disposal of investment properties held in joint ventures	2,488	0	0	0	0	0	0
EPRA earnings	6,451	6,595	7,036	6,905	6,439	6,582	7,310
Average number of shares (m)	53.2	53.2	53.2	53.2	53.2	53.2	53.2
Basic & fully diluted IFRS EPS (p)	45.2	22.4	12.7	34.6	(11.2)	12.4	17.7
Basic & fully diluted EPRA EPS (p)	12.1	12.4	13.2	13.0	12.1	12.4	13.8
DPS declared (p)	10.44	11.00	11.50	11.75	11.75	12.10	12.45
BALANCE SHEET							
Investment properties	336,982	346,388	349,266	359,734	354,055	360,055	367,055
Investment in joint ventures	19,344	25,093	27,852	39,742	12,833	24,108	34,883
Goodwill	4,024	4,024	4,024	4,024	4,024	4,024	4,024
Other non-current assets	1,214	2,151	3,922	3,669	4,025	4,025	4,025
Total non-current assets	361,564	377,656	385,064	407,169	374,937	392,212	409,987
Investments (listed equities)	1,962	2,070	2,394	3,530	4,478	4,478	4,478
Non-current assets held for sale	3,450	0	0	0	0	0	0
Trade & other receivables	6,871	7,388	3,311	6,288	3,760	3,900	3,937
Cash & equivalents	1,515	0	3,124	5,473	9,340	7,676	2,910
Total current assets	13,798	9,458	8,829	15,291	17,578	16,054	11,325
Total assets	375,362	387,114	393,893	422,460	392,514	408,266	421,311
Trade & other payables	(11,857)	(11,496)	(10,846)	(20,278)	(12,532)	(13,001)	(13,122)
Financial liabilities	(38,668)	(887)	0	0	0	0	0
Total current liabilities	(50,525)	(12,383)	(10,846)	(20,278)	(12,532)	(13,001)	(13,122)
Non-current financial liabilities	(141,959)	(184,874)	(191,969)	(198,057)	(187,100)	(202,100)	(212,100)
Total liabilities	(192,484)	(197,257)	(202,815)	(218,335)	(199,632)	(215,101)	(225,222)
Net assets	182,878	189,857	191,078	204,125	192,882	193,164	196,089
Period end shares in issue (m)	53.2	53.2	53.2	53.2	53.2	53.2	53.2
NAV per share (p)	344	357	359	384	363	363	369
CASH FLOW							
Net cash flow from operating activity	2,191	5,656	10,108	6,348	6,487	6,765	6,950
Investment in investment properties	(37,045)	(17,014)	(23,246)	(2,859)	(29,398)	(6,000)	(7,000)
Proceeds from disposal of investment property	26,821	16,050	21,574	7,534	17,204	0	0
Purchase of fixtures, equipment and motor vehicles	(532)	(1,496)	(586)	(340)	(794)	(900)	(900)
Proceeds from sale of fixed assets	0	54	61	0	23	0	0
Investments and loans to JV	0	(4,916)	(4,250)	(8,809)	(211)	(10,500)	(7,900)
Distributions received from joint ventures	0	567	1,031	676	28,145	270	570
Proceeds from sale of joint ventures	0	0	0	0	0	0	0
Payment for the acquisition of non-listed investments	0	0	(1,950)	(175)	(385)	0	0
Cash flow from investing activity	(10,756)	(6,755)	(7,366)	(3,973)	14,584	(17,130)	(15,230)
Proceeds from borrowing	17,475	4,247	7,197	6,088	(10,957)	15,000	10,000
Dividends paid	(5,550)	(5,550)	(5,928)	(6,114)	(6,247)	(6,300)	(6,486)
Cash flow from financing activity	11,925	(1,303)	1,269	(26)	(17,204)	8,700	3,514
Change in cash	3,360	(2,402)	4,011	2,349	3,867	(1,664)	(4,765)
Opening cash	(1,845)	1,515	(887)	3,124	5,473	9,340	7,676
Closing cash	1,515	(887)	3,124	5,473	9,340	7,676	2,910
Bank overdraft	0	887	0	0	0	0	0
Cash as per balance sheet	1,515	0	3,124	5,473	9,340	7,676	2,910
Financial liabilities ex finance leases	(176,147)	(181,281)	(187,507)	(193,595)	(182,656)	(197,656)	(207,656)
Net debt	(174,632)	(181,281)	(184,383)	(188,122)	(173,316)	(189,980)	(204,746)
Net LTV	49.7%	49.5%	49.3%	47.5%	47.6%	49.8%	51.2%

Source: Company data, Edison Investment Research

Contact details	Revenue by geography
Town Centre House The Merrion Centre Leeds LS2 8LY UK +44 (0)113 222 1234 www.tcs-plc.co.uk	

Management team

Chairman and chief executive: Edward Ziff OBE	Property director: Lynda Shillaw
Edward Ziff joined TCS in 1981 and was appointed to the board in 1985. He became managing director in 1993 and chief executive in 2001. In 2004 he also became chairman, succeeding his father, Arnold Ziff, who founded the company in 1959. He has strong links to the Leeds community and in 2017 was awarded the OBE for his services to the economy and community of Leeds.	Lynda joined TCS in November 2018 from Manchester Airports Group where she served as the divisional CEO, property. She has a proven track record of developing and implementing strategy to both operate and leverage value from large, diverse non-core portfolios on behalf of BT, the Co-operative Group and Manchester Airports Group. She also ran the real estate banking divisions at Lloyds Banking Group and the £9bn real estate fund management business at Scottish Widows Investment Partnership.
Group finance director: Mark Dilley	**Managing director, CitiPark: Ben Ziff**
Mark Dilley joined TCS and its board in 2017. Previously, he spent 14 years with Asda Stores (part of Walmart) where he held a number of senior finance roles, including most recently as vice president, retail and property finance, with responsibility for all Asda stores and distribution centres as well as new store acquisitions.	Ben Ziff joined TCS in 2008 and is managing director of CitiPark. He joined the board in September 2015. He has led a significant expansion of the TCS car parking operations, broadening its geographic footprint, branding as CitiPark and harnessing technology to both improve the customer experience and drive business efficiencies.

Principal shareholders	(%)
The Ziff family concert party	52.00%
New Fortress Finance Holdings	7.03%

Companies named in this report

Capital & Regional (CAL); Custodian REIT (CREI); Hammerson (HMSO); Helical (HLCL); Intu (INTU); McKay Securities (MCKS); Mucklow (MKLW); NewRiver (NRR); Palace Capital (PCA); Picton (PCTN); Real Estate Investors (RLE); Regional REIT (RGL); St Modwen (SMP); Schroder REIT (SREI).

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