

Regional REIT

Quarterly DPS increased by 7%

Regional REIT (RGL) has published a trading update for the three months ended 31 March 2021 (Q121), including a 7% increase in the quarterly rate of DPS backed by continuing strong rent collection from its diversified portfolio of attractively yielding regional property assets. With the lockdown restrictions relaxing, RGL says it is seeing increasing engagement with potential occupiers.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NTA**/share (p)	DPS (p)	P/NTA (x)	Yield (%)
12/19	55.0	31.0	7.8	112.6	8.25	0.78	9.4
12/20	53.3	27.9	6.5	98.6	6.40	0.89	7.3
12/21e	53.6	28.9	6.7	99.1	6.60	0.88	7.5
12/22e	55.3	30.4	7.0	99.4	6.90	0.88	7.9

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

DPS increase supported by strong rent collection

RGL has declared a Q121 DPS of 1.6p compared with 1.5p in Q420. Our forecast assumes three quarterly payments of 1.6p and an increased Q4 DPS of 1.8p (total for the year 6.6p versus 6.4p), consistent with the company's plans to revert to distributions in line with its normal pattern. Rent collection remains strong and as at 14 May it had collected 96.1% of Q121 rents (comprising 93.8% received, monthly rent of 1.2% and agreed collection plans of 1.1%), which compares favourably with the 89.6% collected at the same point in 2020. Retention rates remain above 70% and completed lease renewals achieved an average uplift in rents of 6.4%. New lettings will also add £0.9m pa to rent roll when fully occupied, although gross rent roll of £62.8m and EPRA occupancy of 87.8% were slightly below end-FY20 (£64.3m and 89.4% respectively). The end-Q121 portfolio value of £734.7m (end-FY20: £732.4m) is adjusted for capex and one small disposal only, with the next revaluation due at 30 June 2021. Our forecasts are unchanged.

Regional office opportunity

RGL believes strongly in the future for offices in the commercial market universe, especially good-quality regional assets with affordable rents, the focus of investment as RGL becomes a pure-play regional office REIT. The existing office portfolio contains significant reversionary income potential (c £12m at end-FY20) and RGL is seeking to take full advantage of a strong pipeline of further regional office investment opportunities and what it believes to be a mispricing of quality assets, brought into sharper contrast by strong investor enthusiasm for the industrial sector. Not reflected in our forecasts, a sale of the industrial assets above book value is possible, with the proceeds recycled into offices at an increased yield.

Valuation: High yield and fully covered dividend

RGL continues to offer one of the highest yields in the UK REIT sector, with dividends fully covered by EPRA earnings. Despite a rise in the share price the FY21e yield is 7.5%, significantly above close peers, with an 11% discount to FY20 NTA.

Trading update and DPS

Real estate

20 May 2021

Price **87.5p**
Market cap **£378m**

Net debt (£m) at 31 March 2021	303.2
Net LTV as at 31 March 2021	41.3%
Shares in issue	431.5m
Free float	99%
Code	RGL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	3.7	15	16.2
Rel (local)	4.5	9.3	(3.2)
52-week high/low	87.5p	59.8p	

Business description

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

Next events

Q121 DPS paid	16 July 2021
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Exhibit 1: Financial summary

Year end 31 December	£m	2016	2017	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT									
Rental & other income		43.0	52.3	62.1	64.4	62.1	62.6	64.3	65.0
Non-recoverable property costs		0.0	(6.5)	(7.7)	(9.4)	(8.8)	(9.0)	(9.0)	(9.0)
Net rental & related income		43.0	45.8	54.4	55.0	53.3	53.6	55.3	56.0
Administrative expenses (excluding performance fees)		(8.0)	(7.8)	(10.5)	(10.9)	(11.3)	(10.8)	(10.8)	(10.8)
Performance fees		(0.2)	(1.6)	(7.0)	0.0	0.0	0.0	0.0	0.0
EBITDA		34.8	36.4	36.8	44.1	42.0	42.8	44.5	45.2
EPRA cost ratio		N/A	29.7%	40.1%	31.6%	32.4%	31.6%	30.8%	30.5%
EPRA cost ratio excluding performance fee		N/A	26.6%	28.6%	31.6%	32.4%	31.6%	30.8%	30.5%
Gain on disposal of investment properties		0.5	1.2	23.1	1.7	(1.1)	0.0	0.0	0.0
Change in fair value of investment properties		(6.8)	5.9	23.9	(3.5)	(54.8)	0.0	0.0	0.0
Change in fair value of right to use asset					(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Operating Profit (before amort. and except.)		28.5	43.5	83.8	42.0	(14.1)	42.6	44.3	45.0
Net finance expense		(8.6)	(14.5)	(15.7)	(13.7)	(14.0)	(13.7)	(13.9)	(13.9)
Net movement in the fair value of derivative financial investments and impairment of goodwill		(1.7)	(0.3)	(0.1)	(2.0)	(3.1)	0.0	0.0	0.0
Profit Before Tax		18.3	28.7	67.9	26.3	(31.2)	28.9	30.4	31.1
Tax		0.0	(1.6)	(0.6)	0.3	0.2	0.0	0.0	0.0
Profit After Tax (FRS 3)		18.3	27.1	67.4	26.5	(31.0)	28.9	30.4	31.1
Adjusted for the following:									
Net gain/(loss) on revaluation/disposal of investment properties		6.2	(7.1)	(47.0)	1.9	55.9	0.0	0.0	0.0
Other EPRA adjustments		(3.4)	4.1	0.5	2.6	3.0	0.0	0.0	0.0
EPRA earnings		21.1	24.0	20.9	31.0	27.9	28.9	30.4	31.1
Performance fees		0.2	1.6	7.0	0.0	0.0	0.0	0.0	0.0
Adjusted earnings		21.3	25.6	27.9	31.0	27.9	28.9	30.4	31.1
Period end number of shares (m)		274.2	372.8	372.8	431.5	431.5	431.5	431.5	431.5
Fully diluted average number of shares outstanding (m)		274.3	297.7	372.8	398.9	431.5	431.5	431.5	431.5
IFRS EPS - fully diluted (p)		4.9	9.1	18.1	6.6	(7.2)	6.7	7.0	7.2
EPRA EPS, fully diluted (p)		7.7	8.1	5.6	7.8	6.5	6.7	7.0	7.2
Adjusted EPS (p)		7.8	8.6	7.5	7.8	6.5	6.7	7.0	7.2
Dividend per share (p)		7.65	7.85	8.05	8.25	6.40	6.60	6.90	7.20
Dividend cover		101.6%	109.7%	93.1%	94.2%	101.0%	101.6%	102.1%	100.1%
BALANCE SHEET									
Non-current assets		506.4	740.9	720.9	806.0	749.5	755.4	761.2	767.0
Investment properties		502.4	737.3	718.4	787.9	732.4	738.4	744.4	750.4
Other non-current assets		4.0	3.6	2.5	18.1	17.2	17.0	16.8	16.6
Current Assets		27.6	66.6	127.0	69.4	101.1	90.9	87.4	81.6
Other current assets		11.4	21.9	22.2	32.2	33.7	26.3	24.5	24.7
Cash and equivalents		16.2	44.6	104.8	37.2	67.4	64.6	63.0	56.8
Current Liabilities		(23.3)	(42.6)	(83.7)	(36.2)	(49.1)	(43.4)	(44.9)	(45.3)
Borrowings		0.0	(0.4)	(0.4)	0.0	0.0	0.0	0.0	0.0
Other current liabilities		(23.3)	(42.2)	(83.3)	(36.2)	(49.1)	(43.4)	(44.9)	(45.3)
Non-current liabilities		(219.0)	(372.0)	(334.7)	(355.5)	(380.9)	(380.5)	(380.1)	(379.6)
Borrowings		(217.4)	(371.2)	(285.2)	(287.9)	(310.7)	(311.3)	(311.9)	(312.5)
Other non-current liabilities		(1.5)	(0.8)	(49.5)	(67.6)	(70.3)	(69.2)	(68.2)	(67.1)
Net Assets		291.7	392.9	429.5	483.7	420.6	422.3	423.6	423.6
Derivative interest rate swaps & deferred tax liability		1.5	2.8	1.0	2.6	5.0	5.2	5.2	5.2
EPRA net assets		293.2	395.7	430.5	486.3	425.6	427.5	428.8	428.8
IFRS NAV per share (p)		106.4	105.4	115.2	112.1	97.5	97.9	98.2	98.2
Fully diluted EPRA NTA per share (p)		106.1	105.4	115.2	112.6	98.6	99.1	99.4	99.4
CASH FLOW									
Cash (used in)/generated from operations		31.4	40.3	38.8	26.0	48.0	44.6	47.8	45.2
Net finance expense		(6.6)	(9.2)	(11.9)	(12.2)	(12.5)	(12.8)	(12.9)	(12.9)
Tax paid		(1.7)	(0.2)	(1.5)	(0.8)	0.2	0.0	0.0	0.0
Net cash flow from operations		23.1	30.8	25.4	13.0	35.7	31.8	34.9	32.3
Net investment in investment properties		(99.3)	(8.3)	100.6	(25.6)	(0.3)	(6.0)	(6.0)	(6.0)
Acquisition of subsidiaries, net of cash acquired		(5.6)	(51.9)	(32.6)	(43.9)	0.0	0.0	0.0	0.0
Other investing activity		0.1	0.0	0.2	0.2	0.1	0.0	0.0	0.0
Net cash flow from investing activities		(104.8)	(60.1)	68.2	(69.4)	(0.2)	(6.0)	(6.0)	(6.0)
Equity dividends paid		(15.7)	(23.3)	(29.4)	(32.5)	(26.7)	(27.2)	(29.1)	(31.1)
Debt drawn/(repaid) - including bonds and ZDP		91.4	13.9	(50.5)	3.5	22.2	0.0	0.0	0.0
Net equity issuance		0.0	71.3	(1.2)	60.5	0.0	0.0	0.0	0.0
Other financing activity		(1.7)	(4.2)	47.7	(42.7)	(0.8)	(1.4)	(1.4)	(1.4)
Net cash flow from financing activity		74.0	57.7	(33.4)	(11.2)	(5.3)	(28.6)	(30.5)	(32.5)
Net Cash Flow		(7.8)	28.4	60.2	(67.6)	30.1	(2.8)	(1.6)	(6.2)
Opening cash		24.0	16.2	44.6	104.8	37.2	67.4	64.6	63.0
Closing cash		16.2	44.6	104.8	37.2	67.4	64.6	63.0	56.8
Balance sheet debt		(217.4)	(371.6)	(374.6)	(337.1)	(360.1)	(360.9)	(361.6)	(362.4)
Unamortised debt costs		(2.6)	(4.8)	(5.8)	(6.9)	(6.0)	(5.3)	(4.5)	(3.8)
Closing net debt		(203.9)	(331.8)	(275.5)	(306.8)	(298.8)	(301.6)	(303.2)	(309.3)
LTV		40.6%	45.0%	38.3%	38.9%	40.8%	40.8%	40.7%	41.2%

Source: Regional REIT historical data, Edison Investment Research forecasts

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