Chairman's statement

Nicholas Thompson

For the year ended 31 March 2019, I am pleased to report Picton delivered a profit after tax of £31 million, demonstrating further progress despite a more challenging economic backdrop. Our net assets rose by 2.5% to £499 million, equating to 93 pence per share. EPRA earnings were £23 million or 4.3 pence per share, reflecting a modest improvement against last year.

This has been a significant year for the Company as Picton became a UK REIT and changed its listing status from an investment to a commercial company.

Performance

We delivered a total return of 6.5% and, while lower than last year, this reflects weaker growth in the commercial property market generally.

At the portfolio level, we continued our long-term track record of outperformance against the MSCI UK Quarterly Property Index over one, three, five and ten years. The ungeared return from the property portfolio was 7.5% compared to the Index of 4.6%.

Strategy

Our vison remains to be one of the consistently best performing diversified UK focused property companies listed on the London Stock Exchange. Our strategic aims, as set out further in the Report, are in place to help us meet this ambition.

We continue to favour an unconstrained approach to our portfolio, enabling us to enter or exit sectors, subsectors or assets as market conditions change. We also recognise the benefit of having a diverse occupier base and corresponding diversity of income.

Further recognition of our achievements this year were award wins from MSCI/IPF - Best Listed Fund and at the Investment Company of the Year Awards and Investment Trust Awards, amongst others. While the investment company structure has many advantages, particularly for real estate, our decision to be a commercial company, reflecting our internalised structure, has delivered several benefits. We have been able to streamline the way we operate and put in place new reporting lines to increase accountability and improve efficiency.

Property portfolio

Our property portfolio continues to remain biased towards the industrial, warehouse and logistics sector and this undoubtedly drove performance during the year. Conversely, while our retail exposure is limited, with no exposure to shopping centres, it has been a drag on performance and difficult to remain insulated from the disruption that is happening in the wider market. In many instances, retail business models are stretched and the continued growth of online retailing is leading to a re-evaluation of physical property needs and is adversely affecting pricing.

We had a number of key lease events during the year, which meant our occupancy at the year end was lower than 12 months ago. This was not unexpected and remains a key area of focus in the forthcoming year. The fact that we were able to deliver positive growth in net assets despite this reflects the defensive nature of the portfolio.

£31m

TOTAL PROFIT

£499m

NET ASSETS

93p

NAV PER SHARE

4.3p

EPRA EARNINGS PER SHARE

We have exciting projects planned over the coming year which will further improve the quality of the portfolio. These asset management initiatives include upgrading and repositioning space, conversion to higher value uses and enhancing the external fabric to help maintain and attract new occupiers. Whilst the capital outlay for these initiatives is approximately £15 million, they are expected to deliver higher occupancy, rental income and capital values.

REIT conversion

Our transition to a UK REIT in October 2018 was successfully completed and in February 2019 the Company paid its first dividend in the form of a Property Income Distribution, or PID.

One of the reasons we became a REIT was the forthcoming changes to the tax treatment of offshore companies and our results show the benefit of lower taxation since October. This will have a further positive impact in next year's results when over a full year. Over the longer term we expect that, as a UK REIT, we will have a more diversified and potentially greater international representation in our shareholder register. This, in turn, should be positive for both liquidity and share price rating.

Dividends

Dividends paid during the year were 2% higher than in the preceding year, with dividend cover of 122%. Given market conditions, the Board believes it is sensible to maintain the current dividend rate until we have crystalised a further increase in earnings.

Governance and Board composition

As part of our transition to a REIT and change in listing status, there have been a number of changes at Board level. Michael Morris has become Chief Executive and Andrew Dewhirst has joined the Board as Finance Director. Maria Bentley joined the Board in October as a non-executive director and Chair of the Remuneration Committee.

We are now focused on the next stage of Board succession planning, as both Roger Lewis and I intend to stand down, now that REIT conversion is complete. We expect this will be achieved within the next 12 months, ensuring a seamless transfer and maintaining corporate knowledge at Board level. Maria Bentley has additionally become Chair of the Nomination Committee and Mark Batten has become the Senior Independent Director. We have appointed external consultants to undertake a thorough search process which we intend to conclude during the course of the year.

Additionally, we have also undertaken an external evaluation of the Board, which has been a helpful exercise in defining the qualities that we are looking for and have been able to incorporate this feedback into the process.

Capital structure

Our strategy over preceding years to reduce our gearing has proved to be prescient. We are cognisant that in the short-term we need to remain cautious with our use of debt, while at the same time ensuring that we are able to take advantage of opportunities should they arise.

We were able to reduce our loan to value ratio (LTV) over the year from 27% to below 25%. In July, we reduced our overall borrowings through the early repayment of some of our more expensive debt, due for maturity in 2022. This was principally funded from the proceeds of asset sales but also through the use of our lower cost revolving credit facilities, which has had a positive effect on earnings and contributed to the lower LTV.

With regard to our planned expenditure, the Company is likely to commit to many of these initiatives over the next 12 months with funding provided from a combination of existing debt facilities, selective asset sales or new equity, dependent upon market conditions.

Outlook

The uncertainty around Brexit looks set to continue for some time and parts of the property market are likely to remain challenging until there is clarity. By its very nature uncertainty leads to delayed decision making; the reduced investment transaction volumes and lower returns are a reflection of this.

We believe the current portfolio and modest gearing means that Picton is in a good position. With the potential rental value of the portfolio some £9 million ahead of the current passing rent, there is significant upside to be captured through leasing our vacant space, lease restructuring and proactive asset management. We also continue to seek new investment opportunities which will further enhance our portfolio.

Now we are a UK REIT, we need to take advantage of this structure. With our opportunistic approach we will continue to look at ways to grow Picton, though always with a focus on performance and the economies of scale that can be achieved through growth. Our desire is to continue to build on our long-term track record and to ensure that Picton, with its new Board, is best placed to achieve this.

Nicholas Thompson
Chairman