Financial review

Andrew Dewhirst

In the context of more difficult market conditions, our results for the year were positive. The total profit recorded was £31.0 million, compared to £64.2 million for 2018, but this is largely due to lower valuation movements over the year. Our EPRA earnings increased to £22.9 million from £22.6 million, and we maintained a high dividend cover. Earnings per share were 5.7 pence overall (4.3 pence on an EPRA basis), and the total return based on these results was 6.5% for the year.

Net asset value

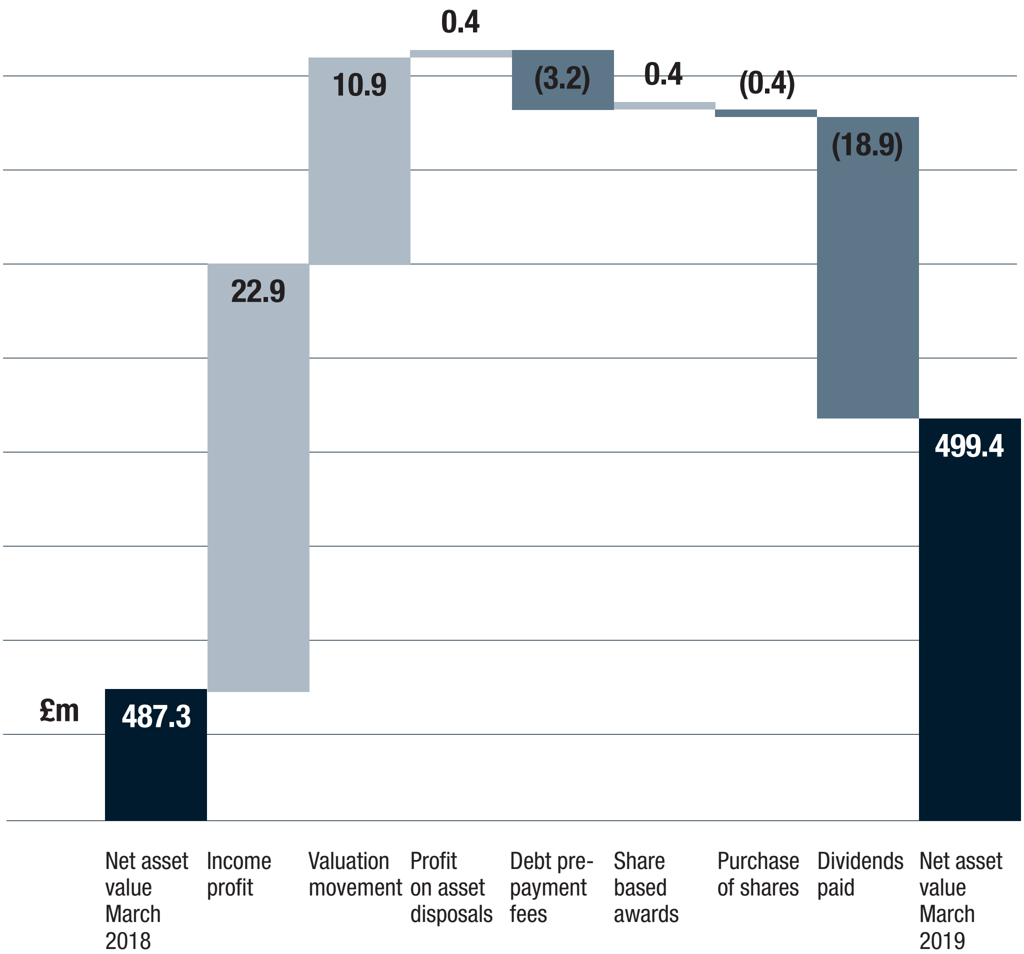
The net assets of the Group increased to £499.4 million, which was a rise of 2.5% over the year. The chart below shows the components of this increase over the year. The EPRA net asset value rose from 90 pence to 93 pence.

£31m

TOTAL PROFIT

5.7p

EARNINGS PER SHARE



The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA).

	2019	2018	2017
Net asset value – EPRA and IFRS (£m)	499.4	487.3	441.9
Fair value of debt (£m)	(24.8)	(21.1)	(24.5)
EPRA triple net asset value (£m)	474.6	466.2	417.4
Net asset value per share (pence)	93	90	82
EPRA net asset value per share (pence)	93	90	82
EPRA triple net asset value per share (pence)	88	87	77

£48m

TOTAL REVENUE

3.5p

ANNUAL DIVIDEND PER SHARE

£685m

PROPERTY VALUE

EPRA best practices recommendations

The EPRA key performance measures for the year are set out on page 3 of the Report, with more detail provided in the Supplementary Disclosures section which starts on page 130.

Income statement

Total revenue from the property portfolio for the year was £47.7 million. On a like-for-like basis, rental income decreased by 0.4% compared to the previous year, on an EPRA basis. The reasons for the small decline have been discussed within the portfolio review section, but is mainly due to the timing of lease expiries and asset management surrender activity.

Administrative expenses for the year were £5.8 million, broadly in line with the £5.6 million in 2018, and include the one-off costs of REIT conversion. This year we have re-presented such operating costs of the business, previously, as an investment company, we distinguished management expenses (incurred through Picton Capital, the investment management subsidiary) and other operating costs.

As discussed below, during the year we made an early repayment of a tranche of one of our fixed rate loan facilities. As a result, interest payable has reduced this year, to £9.1 million, and there will be ongoing annual savings of around £1 million.

Realised and unrealised gains on the portfolio were £11.3 million for the year, significantly lower than the overall gains of £41.5 million reported last year. This is very much a reflection of the commercial property market, and particularly the sentiment in the retail sector, where there have been well publicised issues of retail failures.

The Company converted to a UK REIT on 1 October 2018. From that date profits from our property rental business are exempt from UK tax. For the first half of the year however Picton was still subject to UK taxation as a non-resident landlord, and we have included a tax provision of £0.5 million for that period. This gives an indication of the likely savings that the Group will benefit from now it has joined the REIT regime.

Dividends

Dividends paid during the year were £18.9 million, 2% higher than the preceding year. Dividend cover for the full year was in line with last year at 122%.

Investment properties

The appraised value of our investment property portfolio was £685.3 million at 31 March 2019, up from £683.8 million a year previously. This year we have not made any acquisitions, but have disposed of two regional office buildings, for net proceeds of £11.3 million, realising a combined gain of £0.4 million compared to last year's valuation. A further £1.6 million of capital expenditure was invested back into the existing portfolio. The overall revaluation gain was £10.9 million, representing a 1.8% like-for-like increase in the valuation of the portfolio.

At 31 March 2019 the portfolio comprised 49 assets, with an average lot size of £14.0 million.

Further analysis of capital expenditure, in accordance with EPRA Best Practice Recommendations, is set out in the Supplementary Disclosures section.

" Dividends paid during the year were £18.9 million, 2% higher than the preceding year. "

Borrowings

During the year we repaid a £33.7 million tranche of our Canada Life facility, originally due for repayment in 2022. This was financed partly through proceeds from asset sales and also from drawing down under one of our lower cost revolving credit facilities. In the short-term we expect this will save over £1 million per annum in finance costs, but we have also removed a number of restrictive covenants from the facility, which has increased the flexibility we have under this loan. This refinancing included a prepayment fee of £3.2 million.

Total borrowings are now £194.7 million at 31 March 2019, with the loan to value ratio having reduced to 24.7% from 26.7%. The weighted average interest rate on our borrowings has reduced slightly to 4.0% from 4.1%, while the average loan duration is now 9.8 years.

Our other senior loan facility with Aviva reduced by the regular amortisation of £1.2 million in the year.

The Group remained fully compliant with its loan covenants throughout the year.

Our two revolving credit facilities remain in place until 2021. During the year we made a drawdown of £15.5 million so now have drawn £26 million in total, leaving £25 million undrawn. The current interest rate payable on these loans is around 2.6%.

Loan arrangement costs are capitalised and are amortised over the terms of the respective loans. At 31 March 2019, the unamortised balance of these costs across all facilities were £2.7 million.

The fair value of our borrowings at 31 March 2019 was £219.5 million, higher than the book amount. Lending margins have remained broadly in line with the previous year, but gilt rates have fallen in comparison.

A summary of our borrowings is set out below:

24.7%
LOAN TO VALUE

£194.7m
TOTAL BORROWINGS

9.8 years
AVERAGE LOAN DURATION

	2019	2018	2017
Fixed rate loans (£m)	168.7	203.5	204.6
Drawn revolving facilities (£m)	26.0	10.5	-
Total borrowings (£m)	194.7	214.0	204.6
Borrowings net of cash (£m)	169.5	182.5	170.8
Undrawn facilities (£m)	25.0	40.5	53.0
Loan to value ratio (%)	24.7	26.7	27.4
Weighted average interest rate (%)	4.0	4.1	4.2
Average duration (years)	9.8	10.3	11.7

Cash flow and liquidity

The cash flow from our operating activities was £25.3 million this year, closely in line with the 2018 figure. Proceeds from asset sales were used to finance the net reduction in borrowings. Dividend payments of £18.9 million were made in the year. Our cash balance at the year end stood at £25.2 million.

Share capital

There were no changes in share capital during the year.

The Company's Employee Benefit Trust acquired a further 472,000 shares during the year, at a cost of £0.4 million, to satisfy the potential future vesting of awards made under the Long-term Incentive Plan, and now holds a total of 1,542,000 shares. As the Trust is consolidated into the Group's results these shares are effectively held in treasury and therefore have been excluded from the net asset value and earnings per share calculations, from the date of purchase.

Andrew Dewhirst
Finance Director