

Picton Property Income

Property acquisition

Accretive industrial acquisition

Real estate

Picton Property Income has acquired a multi-let industrial estate for £13.1m, increasing its strong weighting to this well-performing sector. Funded using its previously undrawn low-cost £50m revolving credit facility, the acquisition will be clearly accretive. The existing portfolio contains strong reversionary potential to drive income growth and Picton has continuing financial flexibility for further accretive acquisitions.

Year end	Net property income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	DPS** (p)	EPRA NTA***/ share (p)	P/NTA (x)	Yield (%)
03/20	33.6	19.9	3.7	3.25	93	1.02	3.4
03/21	33.5	20.1	3.7	2.93	97	0.98	3.1
03/22e	33.9	20.4	3.7	3.50	103	0.93	3.7
03/23e	35.2	21.4	3.9	3.58	107	0.89	3.8

Note: *EPRA earnings excludes revaluation gains/losses and other exceptional items.
Declared basis. *EPRA net tangible assets.

Positive spread between yield and funding costs

The acquired asset (the Madleaze Trading Estate) is located in central Gloucester, adjacent to the Gloucester Quays Retail Park and the Gloucester and Sharpness canal. It comprises 18 industrial units let to eight occupiers with two units vacant and under refurbishment for re-letting. Rents of £2.74 per sq ft are affordable and the capital value a low £44 per sq ft, well below the estimated reinstatement cost. Rental income of £0.75m pa is reflected in a net initial yield of 6.1%, expected to increase to £0.86m once the estate is fully let, and further still as rents are reset to market levels over the medium term. With funding provided from a revolving credit facility at 1.5% pa plus Libor (currently less than 1.6% in total), the acquisition is clearly accretive to earnings. LTV remains low (22% on a pro forma basis) with remaining debt headroom for further accretive acquisitions. We will review our estimates with the interim results, which we expect in early November.

Strong performance has continued in FY22

Picton made a strong start to FY22, reporting a 3.2% increase in Q122 EPRA NTA per share to 99.9p, while continuing strong rent collection supported an increase in quarterly DPS to 0.85p (Q421: 0.80p), 121% covered by EPRA earnings. EPRA NTA growth was supported by a 2.9% like-for-like valuation uplift, which continued to be led by industrial assets (54% of the portfolio) but with signs of broadening, particularly to retail warehouse assets that delivered a strong gain. The long-term performance record is also strong and, on an ungeared basis to 31 March 2021 (end-FY21), Picton's portfolio had outperformed the MSCI UK Quarterly Property Index over one, three, five and 10 years and since inception, with a top quartile performance in each of the past six years.

Valuation: Good yield with upside to covered DPS

The annualised rate of quarterly DPS (3.4p) represents a yield of 3.7% (and slightly higher on our forecast DPS). This compares favourably with risk-free alternatives, and we expect further DPS growth in FY22 and FY23. The discount to end-Q122 EPRA NTA is c 5%, above the five-year average of 3%.

1 October 2021

Price **95.0p**

Market cap **£518m**

Net debt (£m) at 30 June 2021 144.7

Net LTV at 30 June 2021 20.6%

Shares in issue 545.6m

Free float 100%

Code PCTN

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.0) 9.2 51.8

Rel (local) (2.8) 8.0 22.7

52-week high/low 99.00p 59.50p

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

H122 results November 2021

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Picton Property Income is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

Year end 31 March (£m)	2017	2018	2019	2020	2021	2022e	2023e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Rents receivable, adjusted for lease incentives	40.6	41.4	40.9	37.8	36.6	38.1	39.4
Other income	7.4	1.4	1.1	1.2	1.5	0.4	0.4
Service charge income	6.5	5.9	5.7	6.7	5.3	5.7	5.9
Revenue from properties	54.4	48.8	47.7	45.7	43.3	44.2	45.7
Property operating costs	(3.5)	(2.6)	(2.3)	(2.3)	(2.4)	(2.4)	(2.5)
Property void costs	(2.0)	(1.8)	(1.4)	(3.0)	(2.2)	(2.2)	(2.2)
Recoverable service charge costs	(6.5)	(5.9)	(5.7)	(6.7)	(5.3)	(5.7)	(5.9)
Property expenses	(12.0)	(10.3)	(9.4)	(12.0)	(9.9)	(10.3)	(10.6)
Net property income	42.4	38.4	38.3	33.6	33.5	33.9	35.2
Administrative expenses	(5.2)	(5.6)	(5.8)	(5.6)	(5.4)	(5.7)	(6.0)
Operating Profit before revaluations	37.1	32.9	32.5	28.1	28.1	28.2	29.2
Revaluation of investment properties	15.1	38.9	10.9	(0.9)	12.9	29.5	19.6
Profit on disposals	1.8	2.6	0.4	3.5	0.9	0.0	0.0
Operating Profit	54.1	74.4	43.7	30.7	41.8	57.7	48.9
Net finance expense	(10.8)	(9.7)	(9.1)	(8.3)	(8.0)	(7.8)	(7.8)
Debt repayment fee	0.0	0.0	(3.2)				
Profit Before Tax	43.2	64.7	31.4	22.4	33.8	49.9	41.1
Taxation	(0.5)	(0.5)	(0.5)	0.1	0.0	0.0	0.0
Profit After Tax (IFRS)	42.8	64.2	31.0	22.5	33.8	49.9	41.1
Adjust for:							
Investment property valuation movement	(15.1)	(38.9)	(10.9)	0.9	(12.9)	(29.5)	(19.6)
Profit on disposal of investment properties	(1.8)	(2.6)	(0.4)	(3.5)	(0.9)	0.0	0.0
Exceptional income /expenses	(5.3)	0.0	3.2	0.0	0.0	0.0	0.0
Profit After Tax (EPRA)	20.6	22.6	22.9	19.9	20.1	20.4	21.4
Fully diluted average Number of Shares Outstanding (m)	540.1	539.7	541.0	546.2	546.8	546.4	546.4
EPS (p)	7.92	11.89	5.75	4.14	6.20	9.15	7.52
EPRA EPS (p)	3.81	4.19	4.25	3.66	3.68	3.74	3.93
Dividend declared per share (p)	3.33	3.43	3.50	3.25	2.93	3.50	3.58
Dividends paid per share (p)	3.300	3.400	3.500	3.500	2.750	3.425	3.560
Dividend cover (x) EPRA EPS/DPS declared	115%	122%	121%	113%	126%	107%	110%
Dividend cover (x) - paid dividends	115%	122%	121%	105%	134%	109%	110%
EPRA cost ratio including direct vacancy costs)	26.1%	23.7%	22.9%	28.3%	26.9%	26.5%	26.5%
BALANCE SHEET							
Fixed Assets	615.2	670.7	676.1	654.5	669.5	704.6	730.2
Investment properties	615.2	670.7	676.1	654.5	665.4	700.5	726.1
Other non-current assets	0.0	0.0	0.0	0.0	4.1	4.1	4.1
Current Assets	49.4	50.6	39.5	41.2	42.9	40.2	37.3
Debtors	15.5	19.1	14.3	17.6	19.6	19.0	18.0
Cash	33.9	31.5	25.2	23.6	23.4	21.2	19.3
Current Liabilities	(20.6)	(22.3)	(23.3)	(20.4)	(19.9)	(19.9)	(19.9)
Creditors/Deferred income	(20.1)	(21.6)	(22.5)	(19.5)	(18.9)	(18.9)	(18.9)
Short term borrowings	(0.6)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Long Term Liabilities	(202.1)	(211.7)	(192.8)	(166.0)	(164.4)	(164.8)	(165.2)
Long term borrowings	(200.3)	(210.0)	(191.1)	(164.2)	(162.7)	(163.1)	(163.5)
Other long-term liabilities	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Net Assets	441.9	487.4	499.4	509.3	528.2	560.2	582.5
NAV/share (p)	82	90	93	93	97	103	107
Fully diluted EPRA NTA/share (p)	82	90	93	93	97	103	107
CASH FLOW							
Operating Cash Flow	36.3	35.1	34.8	21.4	26.0	29.5	30.9
Net Interest	(9.2)	(9.1)	(8.6)	(7.9)	(7.5)	(7.4)	(7.4)
Tax	(0.2)	(0.3)	(0.8)	0.1	0.1	0.0	0.0
Net cash from investing activities	48.7	(17.8)	10.3	25.0	(1.3)	(5.5)	(6.0)
Ordinary dividends paid	(18.0)	(18.5)	(18.9)	(19.0)	(15.0)	(18.7)	(19.4)
Debt drawn/(repaid)	(46.5)	9.2	(22.6)	(27.2)	(1.8)	0.0	0.0
Net proceeds from shares issued/repurchased	0.0	(0.9)	(0.4)	6.1	(0.6)	0.0	0.0
Other cash flow from financing activities							
Net Cash Flow	11.1	(2.4)	(6.3)	(1.6)	(0.2)	(2.1)	(1.9)
Opening cash	22.8	33.9	31.5	25.2	23.6	23.4	21.2
Closing cash	33.9	31.5	25.2	23.6	23.4	21.2	19.3
Debt as per balance sheet	(200.9)	(210.7)	(192.0)	(165.1)	(163.7)	(164.0)	(164.4)
Un-amortised loan arrangement fees	(3.7)	(3.4)	(2.7)	(2.3)	(2.6)	(2.2)	(1.8)
Closing net (debt)/cash	(170.8)	(182.5)	(169.5)	(143.9)	(142.8)	(145.0)	(146.9)
Net LTV	27.3%	26.7%	24.7%	21.7%	20.9%	20.3%	19.9%

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

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