

# Picton Property Income

Quarterly update

Strong start to FY22

Picton Property Income has made a strong start to FY22, reporting a 4.0% NAV total return for the three months ended 30 June 2021 (Q122), and has increased quarterly DPS by a further 6.3%. Like-for-like portfolio valuation and NAV have now grown for four consecutive quarters, reflecting sector positioning, asset management and an improving market environment. Strong reversionary potential and financial flexibility for accretive acquisitions are positive indicators for future progress.

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	0.99	3.5
03/21	33.5	20.1	3.7	2.93	97	0.95	3.2
03/22e	33.9	20.4	3.7	3.50	103	0.90	3.8
03/23e	35.2	21.4	3.9	3.58	107	0.86	3.9

Note: \*EPRA earnings excludes revaluation gains/losses and other exceptional items.

\*\*Declared basis. \*\*\*EPRA net tangible assets.

## Increasing our NAV forecasts

Q122 net asset value (NAV)/EPRA net tangible assets (NTA) per share increased by 3.2% to 99.9p (end-FY21: 96.8p), including a 2.9% like for like valuation increase. Stable occupancy (91%) and continuing strong rent collection support an increase in quarterly DPS to 0.85p (Q421:0.8p), an annualised 3.4p, and 121% covered by EPRA earnings. Performance continues to be led by the industrial sector (54% of the portfolio) but shows signs of broadening, with office valuations (35% of the portfolio) up modestly and even the underweight position in retail & leisure (11%) benefiting from a strong gain in retail warehouse assets. We have made no change to our EPRA earnings and DPS forecasts (FY22e modestly ahead of the current run rate), but have increased our NAV/EPRA NTA forecasts.

## Building on a strong track record

The strong start to FY22 partly reflects an improved market environment, with occupiers benefiting from lockdown easing, and investment market volumes improving, but builds on Picton's strong track record: the All Property capital return for the MSCI Monthly UK Property Index was 2.7% for the quarter. The company seeks to be one of the consistently best-performing diversified UK REITs, and on an ungeared basis to 31 March 2021 (end-FY21) it 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. Enhanced by moderate gearing and good cost management, EPRA NTA total return in the five years to end-FY21 was a compound annual average of 8.0% and 6.6% in FY21.

## Valuation: Good yield with upside to covered DPS

Based on the increased annualised rate of quarterly DPS (3.4p), the yield is 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 7%, above the five-year average of 3%.

Real estate

4 August 2021

**Price** **92.0p**
**Market cap** **£502m**

Net debt (£m) 30 June 2021 144.7

Net LTV at 30 June 2021 20.6%

Shares in issue 547.6m

Free float 100%

Code PCTN

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	5.9	1.3	40.0
Rel (local)	5.5	0.2	15.5

52-week high/low	93.80p	59.50p
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### 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

Q122 DPS paid	31 August 2021
AGM (provisional)	17 November 2021

### Analysts

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## Further details about the Q122 performance

Rent collection remains strong, with 94% of June quarter rents either collected (87%) or expected to be received under agreed monthly payments. This is in line with March quarter collections after the same number of days and Picton expects the collection rate to improve further in coming weeks. The March quarter collection rate stands at 95%.

Exhibit 1 shows the movement in Q122 NAV/EPRA NTA. The 3.1p per share growth included a 3.0p contribution from property revaluation gains and 0.1p of retained earnings.

### Exhibit 1: Quarterly NAV/EPRA NTA movement

	£m	Change	Pence per share
NAV at 31 March 2021	528.2		96.8
Movement in property values	16.5	3.1%	3.0
Net income	5.3	0.9%	0.9
Dividends paid	(4.4)	-0.8%	(0.8)
Other	0.1		0.0
NAV at 30 June 2021	545.7	3.2%	99.9

Source: Picton Property Income

Exhibit 2 shows the consistently positive total returns over the past four quarters (on an annual basis, it has had positive total returns over the past eight years), supported by recovery and growth in property valuations since early 2021 when the pandemic first hit.

### Exhibit 2: NAV/EPRA NTA total returns (£m)

	Q121	Q221	Q321	Q421	Q122
Opening NAV/EPRA NTA	509.3	503.2	505.9	521.0	528.2
Movement in property values	(6.9)	0.5	14.0	6.1	16.5
Equity issued	0.0	0.0	0.0	0.0	0.0
Net income after tax	4.0	6.1	4.7	5.3	5.3
Dividends paid	(3.4)	(3.4)	(3.8)	(4.4)	(4.4)
Other	0.2	(0.4)	0.2	0.2	0.1
Closing NAV/EPRA NTA	503.2	505.9	521.0	528.2	545.7
NAV/EPRA NTA total return	-0.6%	1.2%	3.8%	2.2%	4.0%

Source: Picton Property Income

Strong investment and occupational demand continued to drive industrial sector performance, with the high level of occupancy within the portfolio supporting rental growth. The six rent reviews that Picton completed in Q122 were all in the industrial sector, generating an average 21% increase against the previous passing rent. The combined annual rent of £0.5m was on average 15% above the end-FY21 estimated rental value (ERV).

As previously reported, all of the remaining office space at Stanford Building in London WC2 was let at an average rental of £80 per square foot. This was slightly (3%) below ERV but reflects a longer than average 10-year lease commitment. In general terms, Picton says demand for smaller office suites in central London remains muted but that it is seeing good demand in the regions, with space under offer at a number of buildings. At end-FY21, the reversionary income potential within Picton's office portfolio was £5.9m (out of a total £9.0m), of which £3.4m represented void space (including the subsequently let space at Stanford Building).

The positive Q122 valuation movement in retail and leisure assets was driven by retail warehouse assets, which more than offset a slight decline in high street retail.

**Exhibit 3: Portfolio split and valuation movement in Q122**

	Portfolio allocation	Like for like valuation change
<b>Industrial weighting</b>	<b>53.9%</b>	<b>4.8%</b>
o/w South East	40.6%	
o/w Rest of UK	13.3%	
<b>Office weighting</b>	<b>35.0%</b>	<b>0.2%</b>
o/w South East	10.7%	
o/w Rest of UK	11.1%	
o/w City & West End	13.2%	
<b>Retail &amp; Leisure weighting</b>	<b>11.1%</b>	<b>2.3%</b>
o/w Retail Warehouse	6.9%	
o/w High Street Rest of UK	2.8%	
o/w Leisure	1.4%	
<b>Total</b>	<b>100.0%</b>	<b>2.9%</b>

Source: Picton Property Income. Note: o/w, of which.

### Edison forecasts

We have made no change to our EPRA earnings forecasts, set out in detail in our [June outlook note](#). We have also left our FY22e DPS forecast of 3.5p unchanged, which implies a further small increase in the quarterly rate of DPS before year-end. The Q122 property valuation performance was stronger than we had anticipated and our FY22 NAV/EPRA NTA per share forecast is increased from 101p to 103p, with a similar uplift in FY23 to 107p. Our forecasts do not include accretive acquisitions, although with low gearing (Q122 LTV of 20.9%) and undrawn debt capacity of £50m Picton is well placed to take advantage of opportunities that may arise.

**Exhibit 4: Financial summary**

Year end 31 March (£m)	2017	2018	2019	2020	2021	2022e	2023e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
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	34.6	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	34.1	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%
<b>BALANCE SHEET</b>							
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
<b>CASH FLOW</b>							
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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