

Picton Property Income

Strong Q3 NAV growth and further DPS uplift

Q321 NAV update

Real estate

1 February 2021

Price **82.5p**

Market cap **£434m**

Picton delivered a strong 3.7% NAV total return in the three months to 31 December 2020 (Q321) and with continuing strong rent collection has further increased quarterly DPS. Q321 DPS increased 14% to 0.8p (an annualised 3.2p) and EPRA NAV per share increased 3.0% to 95.5p, above our previous end-FY21 forecast, with property valuation growth driven by industrial assets that account for 52% of the total.

Year end	Net property income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	DPS (p)**	EPRA NAV/ share (p)	P/NAV (x)	Yield (%)
03/19	38.3	22.9	4.3	3.50	93	0.89	4.2%
03/20	33.6	19.9	3.7	3.25	93	0.88	3.9%
03/21e	32.7	19.6	3.6	2.93	96	0.86	3.5%
03/22e	33.9	20.4	3.7	3.50	96	0.86	4.2%

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

**Declared basis. 3.5p paid during FY19 and FY20.

Underpinned by strong rent collection

76% of the December quarter's rents have so far been received; 87% including agreed monthly payments. This is slightly up on the September quarter's performance after the same number of days and is expected to improve further. The September collection rate now stands at 95% (June: 95%; March: 90%). The increase in Q321 DPS follows a 12% increase to 0.7p in Q221. H121 DPS cover was a healthy 148% (or 129% excluding non-recurring income), despite c £1.7m of provisions against outstanding rents, and remained at 122% in Q321, despite increasing DPS and a further £0.4m of provisions. The portfolio value increased by £17.5m, or 2.7% like-for-like, including £1.7m of capex. Q321 EPRA earnings of £4.7m were consistent with our full-year expectations but we have adjusted our DPS expectations to reflect the Q321 increase and our full-year NAV expectations.

Strong reversionary potential

The Q321 portfolio performance continues Picton's outperformance of the MSCI benchmark index (over one, three, five and 10 years) and is continuing to benefit from active asset management and a strong overweighting of the better-performing industrial and regional office sectors, with a significant underweighting of retail and leisure (now just under 12% of the total). There remains a significant opportunity to grow income and support capital values, highlighted by the c £8.5m gap (23%) between the estimated market rental value at full occupancy passing rent of £36.8m at end-H121. Void reduction represents £4.4m of the upside potential, substantially represented by a small number of key completed refurbishments, only partly built into our forecasts. Gearing is low (Q321 LTV 21.3%) and £50m of low-cost borrowing headroom is available to support accretive acquisitions.

Valuation: Good yield with upside in covered DPS

The prospective yield continues to compare favourably with risk-free alternatives (c 0.3% for 10-year UK government debt) and we expect further DPS growth. The 14% discount to Q321 EPRA NAV compares with a five-year average of 3% and anticipates capital value weakness.

Net debt (£m) at 31 December 2020	143.9
Net LTV at 31 December 2020	21.3%
Shares in issue	545.6m
Free float	100%
Code	PCTN
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.9	33.7	(18.0)
Rel (local)	9.1	15.7	(6.4)
52-week high/low	103.0p	52.0p	

Business description

Picton Property Income is an internally managed UK REIT that invests in a diversified portfolio of commercial property across the UK. Its total return driven with an income focus and aims to generate attractive returns through proactive management of the portfolio.

Next events

Payment of Q321 dividend	26 February 2021
FY21 results	Expected 27 May 2021

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Further details

Positive NAV total return accelerated in Q321

NAV total return remained positive during H121 (0.7%) despite the impact of the COVID-19 pandemic and the 3.7% total return in Q321 lifts the total in the first nine months of FY21 to 4.4%.

Portfolio performance

During Q321, the value of Picton's portfolio increased from £648.9m to £654.5m. The previously announced £4.0m sale of a retail property in Peterborough completed in the quarter, at a 30% premium to the end-FY20 valuation, and capital expenditure of £1.7m was incurred. Including the capex, the portfolio increased by £17.5m or 2.7% on a like-for-like basis (2.4% excluding capex).

Exhibit 1: Q321 portfolio allocation and performance

	Portfolio allocation	Like-for-like valuation change
Industrial	52.4%	7.9%
South East	39.4%	
Rest of UK	13.0%	
Office	36.4%	-2.5%
London City and West End	8.7%	
Inner and outer London	5.1%	
South East	11.1%	
Rest of UK	11.5%	
Retail and leisure	11.2%	-2.5%
Retail warehouse	6.7%	
High street – rest of UK	3.0%	
Leisure	1.5%	
Total portfolio	100.0%	2.7%

Source: Picton Property Income

The strong performance in industrial reflects ongoing high occupancy, proven rental growth and continuing investor demand. Lower office valuations reflect more muted investor demand, despite the leasing progress. Retail and leisure continues to see weak investment demand in the face of COVID-19, although retail warehousing was less affected than high-street retail.

Quarterly capital growth for the MSCI Monthly UK Property Index (All Property) was 0.8% and the total return was 2.1%.

DPS recovery backed by rent collection and asset management

At 3.2p, the annualised rate of quarterly dividends has substantially recovered from the 3.5p paid in FY20. In April 2020, the quarterly rate was reduced from 0.875p to 0.625p, reflecting the high level of uncertainty as the pandemic took hold, but with better-than-expected rent collection, successful asset management and leasing progress this was increased by 12% to 0.7p in respect of Q221. The strong level of dividend cover by EPRA earnings (although it will be lower on a cash-collected basis) and similar operational developments underpin the further 14% increase, to 0.8p, in Q321. During the quarter, six lettings were completed, all in the office sector, 4% ahead of the end-September estimated rental value (ERV), adding a combined £0.7m to annualised rents. An additional six lease renewals and two rent reviews were completed, accounting for £0.7m of combined annual rent, at an average 15% above the previous passing rent and 2% ahead of the September ERV. Overall portfolio occupancy held steady at 90% on an EPRA basis.

Increasing DPS and NAV forecasts for FY21

Q321 EPRA earnings of £4.7m (Q221: £6.1m included £1.3m of non-recurring other income) is consistent with our H221 expectation of £9.5m, set out in detail in our [December Outlook note](#), which we leave unchanged. We now assume 0.8p of DPS in Q421 (previously 0.7p in both Q321 and Q421) and continue to forecast a further increase in FY22. On a declared basis, we now expect aggregate FY21 DPS to amount to 2.925p.

The Q321 property valuation performance was well ahead of our assumptions and, assuming a flat performance in Q421, our end-FY21 EPRA NAV per share forecast increases to 96p from 93p and feeds through into subsequent years.

Exhibit 2: Quarterly NAV performance

	Q420	Q121	Q221	Q321
£m unless stated otherwise	31-Mar-20	30-Jun-20	30-Sep-20	31-Dec-20
Opening NAV	519.1	509.3	503.2	505.9
Movement in property values	(9.4)	(6.9)	0.5	14.0
Equity issued	0.0	0.0	0.0	0.0
Net income after tax (EPRA earnings)	4.2	4.0	6.1	4.7
Dividends paid	(4.7)	(3.4)	(3.4)	(3.8)
Other	0.1	0.2	(0.5)	0.2
Closing NAV	509.3	503.2	505.9	521.0
Closing NAV per share (p)	93.4p	92.2p	92.7p	95.5p

Source: Picton Property Income

Exhibit 3: Financial summary

Year end 31 March	£m	2016	2017	2018	2019	2020	2021e	2022e	2023e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Rents receivable, adjusted for lease incentives		39.7	40.6	41.4	40.9	37.8	36.0	38.4	39.4
Other income		1.1	7.4	1.4	1.1	1.2	1.4	0.4	0.4
Service charge income		5.2	6.5	5.9	5.7	6.7	5.7	6.1	6.3
Revenue from properties		45.9	54.4	48.8	47.7	45.7	43.1	45.0	46.1
Property operating costs		(3.3)	(3.5)	(2.6)	(2.3)	(2.3)	(1.9)	(2.3)	(2.2)
Property void costs		(1.5)	(2.0)	(1.8)	(1.4)	(3.0)	(2.8)	(2.6)	(2.4)
Recoverable service charge costs		(5.2)	(6.5)	(5.9)	(5.7)	(6.7)	(5.7)	(6.1)	(6.3)
Property expenses		(10.0)	(12.0)	(10.3)	(9.4)	(12.0)	(10.4)	(11.1)	(10.9)
Net property income		35.9	42.4	38.4	38.3	33.6	32.7	33.9	35.2
Administrative expenses		(4.4)	(5.2)	(5.6)	(5.8)	(5.6)	(5.1)	(5.7)	(6.0)
Operating Profit before revaluations		31.5	37.1	32.9	32.5	28.1	27.7	28.3	29.2
Revaluation of investment properties		44.2	15.1	38.9	10.9	(0.9)	8.1	0.0	10.0
Profit on disposals		0.8	1.8	2.6	0.4	3.5	0.0	0.0	0.0
Operating Profit		76.5	54.1	74.4	43.7	30.7	35.8	28.3	39.2
Net finance expense		(11.4)	(10.8)	(9.7)	(9.1)	(8.3)	(8.0)	(7.8)	(7.8)
Debt repayment fee		0.0	0.0	0.0	(3.2)				
Profit Before Tax		65.1	43.2	64.7	31.4	22.4	27.7	20.4	31.4
Taxation		(0.2)	(0.5)	(0.5)	(0.5)	0.1	0.0	0.0	0.0
Profit After Tax (IFRS)		64.8	42.8	64.2	31.0	22.5	27.7	20.4	31.4
Adjust for:									
Investment property valuation movement		(44.2)	(15.1)	(38.9)	(10.9)	0.9	(8.1)	0.0	(10.0)
Profit on disposal of investment properties		(0.8)	(1.8)	(2.6)	(0.4)	(3.5)	0.0	0.0	0.0
Exceptional income /expenses		0.0	(5.3)	0.0	3.2	0.0	0.0	0.0	0.0
Profit After Tax (EPRA)		19.9	20.6	22.6	22.9	19.9	19.6	20.4	21.4
Fully diluted average Number of Shares Outstanding (m)		540.1	540.1	539.7	541.0	546.2	547.1	547.1	547.1
EPS (p)		12.01	7.92	11.89	5.75	4.14	5.08	3.74	5.75
EPRA EPS (p)		3.68	3.81	4.19	4.25	3.66	3.60	3.74	3.92
Dividend declared per share (p)		3.30	3.33	3.43	3.50	3.25	2.93	3.50	3.58
Dividends paid per share (p)		3.300	3.300	3.400	3.500	3.500	2.750	3.425	3.560
Dividend cover (x) EPRA EPS/DPS declared		112%	115%	122%	121%	113%	123%	107%	109%
Dividend cover (x) - paid dividends		112%	115%	122%	121%	105%	131%	109%	110%
EPRA cost ratio including direct vacancy costs)		22.8%	26.1%	23.7%	22.9%	28.3%	26.7%	27.1%	26.4%
BALANCE SHEET									
Fixed Assets		649.4	615.2	670.7	676.1	654.5	664.2	670.2	686.2
Investment properties		646.0	615.2	670.7	676.1	654.5	664.2	670.2	686.2
Other non-current assets		3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Assets		37.4	49.4	50.6	39.5	41.2	42.2	38.8	35.6
Debtors		14.6	15.5	19.1	14.3	17.6	21.0	19.0	18.0
Cash		22.8	33.9	31.5	25.2	23.6	21.2	19.8	17.6
Current Liabilities		(47.5)	(20.6)	(22.3)	(23.3)	(20.4)	(19.2)	(19.2)	(19.2)
Creditors/Deferred income		(18.4)	(20.1)	(21.6)	(22.5)	(19.5)	(18.4)	(18.4)	(18.4)
Short term borrowings		(29.1)	(0.6)	(0.7)	(0.8)	(0.9)	(0.8)	(0.8)	(0.8)
Long Term Liabilities		(222.2)	(202.1)	(211.7)	(192.8)	(166.0)	(165.2)	(165.5)	(165.9)
Long term borrowings		(220.4)	(200.3)	(210.0)	(191.1)	(164.2)	(163.5)	(163.8)	(164.2)
Other long term liabilities		(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Net Assets		417.1	441.9	487.4	499.4	509.3	522.0	524.2	536.7
NAV/share (p)		77	82	90	93	93	96	96	98
Fully diluted EPRA NAV/share (p)		77	82	90	93	93	96	96	98
CASH FLOW									
Operating Cash Flow		33.3	36.3	35.1	34.8	21.4	23.5	30.8	30.7
Net Interest		(8.8)	(9.2)	(9.1)	(8.6)	(7.9)	(7.6)	(7.5)	(7.5)
Tax		(0.4)	(0.2)	(0.3)	(0.8)	0.1	0.1	0.0	0.0
Net cash from investing activities		(68.1)	48.7	(17.8)	10.3	25.0	(1.6)	(6.0)	(6.0)
Ordinary dividends paid		(17.8)	(18.0)	(18.5)	(18.9)	(19.0)	(15.0)	(18.7)	(19.4)
Debt drawn/(repaid)		14.6	(46.5)	9.2	(22.6)	(27.2)	(1.2)	0.0	0.0
Net proceeds from shares issued/repurchased		0.0	0.0	(0.9)	(0.4)	6.1	(0.6)	0.0	0.0
Other cash flow from financing activities									
Net Cash Flow		(47.3)	11.1	(2.4)	(6.3)	(1.6)	(2.4)	(1.4)	(2.2)
Opening cash		70.1	22.8	33.9	31.5	25.2	23.6	21.2	19.8
Closing cash		22.8	33.9	31.5	25.2	23.6	21.2	19.8	17.6
Debt as per balance sheet		(249.5)	(200.9)	(210.7)	(192.0)	(165.1)	(164.3)	(164.7)	(165.0)
Un-amortised loan arrangement fees		0.0	(3.7)	(3.4)	(2.7)	(2.3)	(2.6)	(2.2)	(1.8)
Closing net (debt)/cash		(226.8)	(170.8)	(182.5)	(169.5)	(143.9)	(145.7)	(147.1)	(149.2)
Net LTV		34.6%	27.3%	26.7%	24.7%	21.7%	21.6%	21.6%	21.4%

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

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