

# Picton Property Income

Capturing rent potential in Q3

December FY24 NAV update

Real estate

31 January 2024

**Price** **67p**

**Market cap** **£365m**

Net debt (£m) at 31 December 2023 206.3

Net LTV at 31 December 2023 27.7%

Shares in issue 545.2m

Free float 100%

Code GB00B0LCW208

Primary exchange LSE

Secondary exchange N/A

Picton Property Income's (PCTN's) Q324 trading update details a range of positive leasing events that provided underpinning to income, reflected in its well-covered DPS. Together with progress on specific asset management initiatives this mitigated the impact of market-wide outward yield movements on NAV.

Year end	Net property income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	DPS (p)	NAV** per share (p)	P/NAV (x)	Yield (%)
03/23	36.3	21.3	3.9	3.50	100	0.67	5.2
03/24e	36.6	20.5	3.8	3.50	96	0.70	5.2
03/25e	37.8	22.0	4.0	3.60	97	0.69	5.4
03/26e	39.0	23.3	4.3	3.70	98	0.69	5.5

Note: \*EPRA earnings exclude revaluation gains/losses and other exceptional items. \*\*NAV measure is net tangible assets (NTA), currently the same as IFRS NAV.

## Rent uplifts support income and capital values

The Q324 DPS of 0.875p was 108% covered by EPRA earnings (H124: 105%). Leasing activity locked in some significant rental increases, all at or above estimated rental value (ERV) and/or passing rent, while overall occupancy was unchanged at 90% (or 92% adjusted for the alternative use strategies being undertaken in Cardiff and Angel Gate). MSCI monthly market data show a negative total return of 1.4% for the period including a negative capital return of 2.7%. The 1.5% like-for-like decline in Picton's portfolio values was ahead of this, supported by asset management and continuing to benefit from a strong weighting to better-performing industrial assets (59% by value). NAV per share was 2.5% lower at 96p and, adjusted for DPS paid, the NAV total return was -1.6%. We have reduced forecast NAVs by c 2p to take account of the Q3 valuation movement and continue to assume flat valuations going forwards, with no other forecast changes.

## Focused on growing income

At a portfolio level, Picton has outperformed the MSCI index in each of the past 10 years, delivering upper quartile performance since inception in 2005. This has driven strong accounting returns, averaging approximately 10% pa over the same period. Picton remains open to value creating consolidation opportunities, seeking to lever its performance record and internal management structure, but realising its strong organic growth opportunities are its focus. While portfolio rents continue to increase across all sectors, as is true of the broader market, there is a significant opportunity to close the wide (£13.2m at H1) gap between current passing rents and ERV. Active asset management plans, aimed at unlocking this, and including repurposing of selected office properties, are making good progress. With sector capital values an average 25% lower from the peak in 2022, the much-anticipated decline in interest rates should have a stabilising effect.

## Valuation: Fully covered DPS with room for growth

The current annualised run rate of DPS (3.5p), which we expect to be fully covered, represents a prospective yield of 5.2%. We forecast DPS growth, fully covered, in FY25 and FY26. Meanwhile the shares trade at a 30% discount to Q324 NAV.

## Share price performance



%	1m	3m	12m
Abs	(3.5)	4.4	(16.9)
Rel (local)	(2.5)	(1.5)	(15.4)
52-week high/low	82.30p		61.60p

## 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 event

FY24 annual results Expected 23 May 2024

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## Further details from the trading update

We have recently published updates on Picton's [robust H124 performance](#) in a challenging market and updated our forecasts following the [closure of merger discussions](#) with UK Commercial Property REIT (UKCM).

Exhibit 1 shows clearly how Q324 dividends were fully covered by EPRA earnings (108% adjusting for the rounding of data in the table) with property revaluation movements reducing NAV.

<b>Exhibit 1: Quarterly NAV movements FY24 year-to-date</b>				
	30-Jun-23	30-Sep-23	31-Dec-23	
Pence per share	Q124	Q224	Q324	
Opening NAV/EPRA NTA per share	100.4	99.4	98.5	
Movement in property values	(1.0)	(1.1)	(2.5)	
Net income after tax	0.8	1.0	0.9	
Dividends paid	(.8)	(0.9)	(0.9)	
Other	0.0	0.1	0.0	
<b>Closing NAV/EPRA NTA per share</b>	<b>99.4</b>	<b>98.5</b>	<b>96.0</b>	

Source: Picton Property Income

Positive leasing events during the quarter mirrored the key reversionary opportunities within the portfolio, of raising industrial rents to market levels and reducing void space in the office sector. They included:

- Four rent reviews in the industrial and retail sectors, with annual rent of £2.3m, which were at an average 33% uplift to previous passing rent and a 5% premium to the H124 ERV or the ERV at the time of the review if prior.
- Two leases were renewed/regeared in the industrial sector, with a combined annual rent of £0.1m, double the previous passing rent and in line with the Q324 ERV.
- Five lettings in the industrial and office sectors, securing a combined annual rent of £0.5m, in line with the Q324 ERV.

Additionally, the repurposing initiative of offices at Angel Gate in London EC1 were advanced by the securing of permitted development rights on the remaining 34,000 sq ft, enabling residential use across the whole property. Picton says that it is now in the process of bringing this asset to the market for disposal in early 2024.

At end-Q323, Picton's portfolio valuation reflected a net initial yield of 5.3% (allowing for void holding costs) compared with 5.0% at end-H124, and a reversionary yield of 7.0% (H124: 6.8%). The outward drift of yields affected all sectors but particularly offices and less so in industrials. The impact on valuation was mitigated by the income progress detailed above.

**Exhibit 2: Portfolio valuation movements during Q3**

	Portfolio value by sector	Like-for-like change	Average equivalent yield movement in basis points
<b>Industrials</b>	<b>58.9%</b>	<b>-1.0%</b>	<b>+11</b>
o/w South East	42.0%		
o/w Rest of UK	16.9%		
<b>Office</b>	<b>30.4%</b>	<b>-2.4%</b>	<b>+18</b>
<b>o/w London City &amp; West End</b>	<b>7.1%</b>		
o/w Inner & Outer London	1.7%		
o/w South-East	8.0%		
o/w Rest of UK	8.9%		
o/w Alternative use assets	4.7%		
<b>Retail &amp; Leisure</b>	<b>10.7%</b>	<b>-1.9%</b>	<b>+13</b>
o/w Retail Warehouse	6.7%		
o/w High Street Rest of UK	2.4%		
o/w Leisure	1.6%		
Portfolio total	100.0%	-1.5%	

Source: Picton Property Income

**Exhibit 3: Financial summary**

Year end 31 March (£m)	2022	2023	2024e	2025e	2026e
<b>PROFIT &amp; LOSS</b>					
Rental income	40.1	43.0	43.7	44.3	45.6
Other income	0.2	0.4	0.6	0.5	0.5
Service charge income	6.2	8.4	9.6	9.7	10.0
Revenue from properties	46.5	51.8	53.9	54.5	56.1
Property operating costs	(2.5)	(3.5)	(3.2)	(3.2)	(3.3)
Property void costs	(2.4)	(3.6)	(4.5)	(3.8)	(3.8)
Recoverable service charge costs	(6.2)	(8.4)	(9.6)	(9.7)	(10.0)
Property expenses	(11.1)	(15.6)	(17.3)	(16.7)	(17.1)
Net property income	35.4	36.3	36.6	37.8	39.0
Administrative expenses	(5.8)	(6.0)	(6.6)	(6.9)	(7.2)
Operating Profit before revaluations	29.7	30.3	30.0	30.9	31.8
Revaluation of investment properties	129.8	(110.8)	(11.6)	0.0	0.0
Profit on disposals	0.0	0.0	0.0	0.0	0.0
Operating Profit	159.5	(80.5)	18.4	30.9	31.8
Net finance expense	(8.5)	(9.0)	(9.5)	(8.9)	(8.5)
Debt repayment fee	(4.0)				
Profit Before Tax	147.0	(89.5)	8.9	22.0	23.3
Taxation	0.0	0.0	0.0	0.0	0.0
Profit After Tax (IFRS)	147.0	(89.5)	8.9	22.0	23.3
Adjust for:					
Investment property valuation movement	(129.8)	110.8	11.6	0.0	0.0
Profit on disposal of investment properties	(0.0)	0.0	0.0	0.0	0.0
Exceptional income /expenses	4.0	0.0	0.0	0.0	0.0
EPRA earnings	21.2	21.3	20.5	22.0	23.3
Fully diluted average Number of Shares Outstanding (m)	547.3	546.9	547.1	547.6	547.6
EPS (p)	26.93	(16.42)	1.64	4.03	4.27
EPRA EPS (p)	3.9	3.9	3.8	4.0	4.3
Dividend declared per share (p)	3.45	3.50	3.50	3.60	3.70
Dividends paid per share (p)	3.375	3.500	3.500	3.575	3.675
Dividend cover (x) EPRA EPS/DPS declared	1.13	1.12	1.08	1.12	1.15
Dividend cover (x) - paid dividends	1.15	1.12	1.08	1.14	1.19
Total return	27.9%	-13.7%	-0.6%	4.3%	4.5%
EPRA cost ratio (excluding direct vacancy costs)	19.9%	21.3%	21.8%	22.1%	22.4%
<b>BALANCE SHEET</b>					
Non-current assets	834.4	749.8	729.8	713.0	718.7
Investment properties	830.0	746.3	726.3	709.5	715.2
Other non-current assets	4.4	3.4	3.5	3.5	3.5
Current assets	61.4	42.8	41.8	47.2	45.8
Debtors	22.9	22.7	26.1	26.1	26.1
Cash	38.5	20.1	15.8	21.1	19.7
Current Liabilities	(20.3)	(20.7)	(19.7)	(19.7)	(19.7)
Creditors/Deferred income	(19.3)	(19.6)	(18.6)	(18.6)	(18.6)
Current borrowings	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
Non-Current Liabilities	(218.4)	(224.2)	(226.8)	(212.2)	(212.5)
Non-current borrowings	(215.8)	(221.6)	(224.2)	(209.6)	(209.9)
Other non-current liabilities	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Net assets	657.1	547.6	525.1	528.3	532.3
NAV per share (p)	120	100	96	97	98
EPRA NTA per share (p)	120	100	96	97	98
<b>CASH FLOW</b>					
Operating cash flow	28.1	30.9	26.4	31.6	32.5
Net Interest	(8.1)	(7.9)	(9.1)	(8.6)	(8.2)
Tax	0.0	0.0	0.0	0.0	0.0
Net cash from investing activities	(33.8)	(26.8)	(4.8)	16.7	(5.7)
Ordinary dividends paid	(18.4)	(19.1)	(19.1)	(19.5)	(20.0)
Debt drawn/(repaid)	52.2	5.4	2.3	(14.9)	0.0
Net proceeds from shares issued/repurchased	(0.7)	(1.1)	0.0	0.0	0.0
Other cash flow from financing activities	(4.0)				
Net cash from financing activities	29.0	(14.8)	(16.8)	(34.4)	(20.0)
Change in cash	15.2	(18.5)	(4.3)	5.4	(1.4)
Opening cash	23.4	38.5	20.1	15.8	21.1
Closing cash	38.5	20.1	15.8	21.1	19.7
Debt as per balance sheet	(216.8)	(222.8)	(225.4)	(210.8)	(211.1)
Un-amortised loan arrangement fees	(2.0)	(1.7)	(1.4)	(1.1)	(0.8)
Closing net (debt)/cash	(180.3)	(204.4)	(211.0)	(190.7)	(192.2)
Net LTV	21.2%	26.7%	28.3%	26.1%	26.1%

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

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