EDISON

Regional REIT

Update on trading

Capital recycling generating strong returns

Real estate

The strength in the commercial property investment market is allowing Regional REIT (RGL) to realise gains from its asset management strategy, reposition the portfolio for new growth opportunities and progress with its targeted reduction in gearing. Portfolio activity is generating strong capital returns, but with property sales running ahead of reinvestment, income is being temporarily dampened. Reinvestment and refinancing of higher-cost debt should provide a boost to FY19 and we forecast an increased dividend, fully covered by adjusted earnings.

Year end	Net rental income (£m)	Adjusted EPS* (p)	EPRA NAV/ share (p)	DPS (p)	P/EPRA NAV (x)	Yield (%)
12/16	38.1	7.8	106.9	7.65	0.93	7.7
12/17	45.8	8.6	105.9	7.85	0.94	7.9
12/18e	53.5	7.3	114.8	8.05	0.87	8.1
12/19e	56.0	8.6	118.3	8.25	0.84	8.3

Note: *Adjusted EPS excludes revaluation movements, gains/losses on disposal, and other non-recurring items, as well as the performance fee accrual included in EPRA EPS.

We forecast a 16.0% full-year NAV total return

RGL's strategy is to provide investors with an attractive return on a sustained and consistent basis. Income returns are a focus, and dividend policy is progressive. Meanwhile, current year disposals at prices well ahead of valuation, and at yields well below reinvestment levels, demonstrate RGL's ability to create value through asset management. Although the time lag to reinvestment has a temporarily negative impact on income levels, total returns are strong. H118 NAV total return was 11.3% and our revised estimate is for 16.0% full-year growth. Gearing is also being reduced; LTV was 37.1% at end-Q3 and we forecast it to remain slightly below 40% by year end despite reinvestment. Heightened Brexit uncertainty may create additional opportunities to reinvest by cooling the investment markets. Management has seen little change in occupational demand.

Positioning the portfolio for ongoing growth

Year to date, property disposals amount to c £150m (£60.4m in H118 at a blended yield of 4.9%) and c £72m has been reinvested (£40.1m in H118 at an average 8.4% yield). Management indicates further opportunistic acquisitions from its liquid balance sheet (£92m in cash at 30 September), and we have assumed £40m (before costs) by year end. Our NAV forecasts increase, but the impact on current year income leaves the dividend uncovered. FY19 income, earnings and dividend cover should rebound driven by reinvestment, occupancy and rental growth, and interest savings from the repayment of higher-cost debt.

Strong returns with income focus

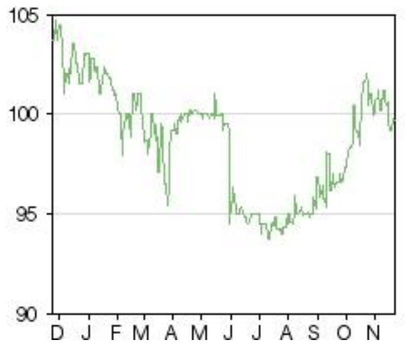
RGL continues to generate strong total returns and its c 8.1% prospective yield remains among the highest in the sector. Dividend policy is progressive, and we expect DPS to be fully covered by adjusted earnings in FY19. The geographic spread of its non-London portfolio, its sector and tenant diversity and high asset yield all mitigate macroeconomic risks.

22 November 2018

Price	**99.7p**
Market cap	**£372m**

Net debt (£m) at 30 September 2018	268.3
Net LTV at 30 September 2018	37.1%
Shares in issue	372.8m
Free float	97.1%
Code	RGL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.9)	4.8	(4.6)
Rel (local)	(1.6)	13.2	0.7
52-week high/low		104.7p	93.7p

Business description

Regional REIT owns a highly diversified commercial property portfolio of predominantly offices and light industrial units located in the regional centres of the UK. It is actively managed and targets a total shareholder return of at least 10% with a strong focus on income.

Next events

Q4 dividend announcement	February 2019 (exp.)
FY18 prelims	March 2019 (exp.)

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Edison profile page

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Update on portfolio transactions and positioning

Asset management harvesting

Capital recycling is an important element of RGL's strategy, which is to opportunistically acquire attractively priced, income-producing assets that will benefit from active management, and that may subsequently be sold to realise the value thereby created. During the current year, RGL has continued to take advantage of good investment demand to dispose of properties where its asset management plans are complete and, in some cases, where plans are yet to reach maturity, but where it believes a better risk-adjusted return can be earned by selling at current market prices, well above valuations.

During H118 a number of properties were sold for an aggregate £60.4m, reflecting an average net initial yield of 4.9% (or 6.6% excluding non-income producing assets). £40.1m (before acquisition costs) was reinvested at an average net initial yield of 8.4%. The transactions lock in a positive yield arbitrage of c 180bp, demonstrate management's ability to generate value through asset management activity, and reposition the portfolio for future growth opportunities. Realised gains (after costs) were £7.2m.

In Q3, a number of further sales were completed for an aggregate £79.2m. We estimate an uplift to the June 2018 book value of c 16%. Meanwhile, the £31.4m acquisition of an eight-property regional office portfolio was completed at an expected net initial yield of 8.66%.

So far in Q418, three additional non-core properties have been sold for an aggregate £9.5m.

RGL made a deliberate decision to press on with asset sales earlier in the year, taking advantage of strong investor demand and anticipating the potential for the approach of the Brexit negotiating deadline to introduce some caution into the investment market. There are some signs that this may be happening and may be beneficial as RGL continues to pursue reinvestment opportunities. In contrast, in its Q3 update it notes that it has seen little change in occupational demand. In the period from 1 January 2018 to the date of the Q3 trading update (15 November), RGL had exchanged on 54 leases to new tenants, including 21 since H118 which, when fully occupied, will provide £2.4m pa of headline rental income. Tenant retention at lease expiry continues to be strong, with 84% of headline rent being retained on lease renewals in Q318.

After commenting on recent transactions in more detail immediately below, we provide an update on the overall portfolio and show how these transactions continue to reshape it in line with management strategy.

More on the recent transactions

Some of the main transactions that have recently been announced include:

Sales

- **The 'Bluebell Portfolio'** comprising 15 industrial property assets was announced in early July. The sale price for these 15 assets was £39.1m, a 24.1% uplift to the end-FY17 valuation, and reflecting a net initial yield of 6.9%. During RGL's ownership, several asset management initiatives were instigated, improving occupancy rates and rental income. The large uplift to valuation is tangible evidence of management's belief that some of its external property valuations, particularly for industrial assets, are lagging the prices reflected in the investment market.

  The disposal of 12 of the properties, for c £34m, was completed during H1 (Phase I) and the disposal of the remaining three properties plus an additional property (Phase II) has since completed, taking the total sales value including Phase I to £46.7m. The Phase II assets are Imperial Business Park in Gravesend, sold in August (Q318) for £3.1m, in line with the June valuation; Thames Industrial Estate in Manchester, sold in October (Q418) for £0.6m; Grecian Crescent in Bolton, sold in October (Q418) for £1.2m; and the additional asset, Maybrook Industrial Estate in Walsall, sold in November (Q418) for £7.7m.

- **The Point Trade & Retail Park, Glasgow**. Contracts were exchanged in June and the sale for £14.1m was completed in July (Q318), 5.6% ahead of the end-FY17 valuation, and reflecting a net initial yield of 6.6%. The sale price was reflected in the 30 June valuation. During the five years that it owned the property, RGL undertook several asset management initiatives, including the subdivision of some of the larger units to create smaller units, and a series of renovations, achieving full occupancy and stabilising rental income at c £1m, have resulted in increased rental income,
- **Arena Point, Leeds**. In early August, RGL completed the sale of this development site in Leeds, conditionally agreed in 2017, for £12.2m. The site was acquired as part of the Wing Portfolio acquisition in 2016 and has been sold to Unite Students, with which RGL worked post-acquisition to obtain planning consent for a large-scale student housing development. The 30 June 2018 valuation of this non-yielding asset was £3.9m. RGL retains the adjacent 19-storey Arena Point office building valued at £8.6m at 30 June 2018.
- **Wardpark, Cumbernauld**, a multi-let industrial estate acquired in 2013, was sold in early August for £26.4m, 21.1% above the December 2017 valuation. Asset management had improved occupancy and retention rates at Wardpark, improving occupancy (by value) to 86.2% at H118, and the disposal gain represents additional evidence of potential latent value in the portfolio.
- **Turnford Place, Cheshunt**, a modern office block originally acquired by RGL for £14.3m, as part of a portfolio acquisition (the Newton Portfolio) in December 2017, was sold in early September for £17.25m, 20.6% above the end-FY17 valuation, and reflecting a net initial yield of 5.8%.

Purchases

- **H118 regional office portfolio.** Late in H118, RGL completed the £35.2m acquisition of a portfolio of five regional offices and one office/distribution property from Kildare Partners. The properties are expected to provide net income of c £3,1m, representing a net initial yield of 8.4%. Asset management programmes have been instigated, with an early focus on lease re-gears, and the properties were valued at £36.6m at end-H118.
- **Q318 portfolio of eight regional assets.** The £31.4m acquisition of eight regional office assets that completed in August, at a net initial yield of 8.66%, is expected to add £2.81m in headline rental income pa.

With RGL actively looking for reinvestment opportunities, our forecasts assume that £40m is invested by year-end, at a net initial yield of 8%, contributing £3.4m to headline rental income in FY19.

Shift towards offices and the south-east of England

As at 30 September 2018 (Q318) the property portfolio was valued at £723.2m (end-FY17: £737.3m), with a contracted rental income of £59.4m (end-FY17: £61.9m), and occupancy (by value) of 85.8% (end-FY17: 85.0%).

Not published in the quarterly updates and hence unavailable for Q318, the weighted average lease term (WAULT) to first break was 3.5 years as of 30 June 2018 and the valuation at that date reflected a net initial yield of 6.4% (end-FY17: 6.5%).

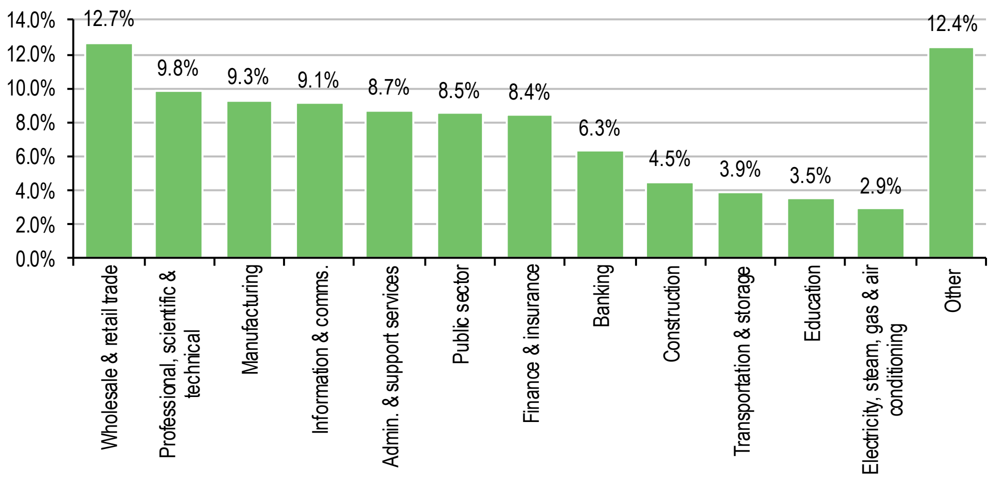
Exhibit 1: Key portfolio data

	Q318	H118	FY17	H117
Valuation (£m)	723.2	758.7	737.3	640.4
Number of properties	153	151	164	150
Number of property units	1,246	1,294	1,368	1,093
Number of tenants	915	950	1,026	823
Contracted rents (£m)	59.4	61.3	61.9	54.6
WAULT to first break (years)		3.5	3.5	3.5
Estimated rental value, ERV (£m)		73.4	73.8	65.1
Occupancy (by value)	85.8%	85.5%	85.0%	83.1%
Net initial yield		6.4%	6.5%	6.7%
Equivalent yield		8.3%	8.3%	8.3%

Source: Regional REIT

Although focused on office and light industrial property, a notable feature of the RGL portfolio is its diversification, with 153 properties (end-FY17: 164), 1,246 lettable units (end-FY17 1,368) and more than 900 tenants. The portfolio is further diversified by geography and its exposure to a wide range of businesses that can fairly be said to represent the UK economy as a whole. The latest available data, as at 30 June, is shown in Exhibit 2.

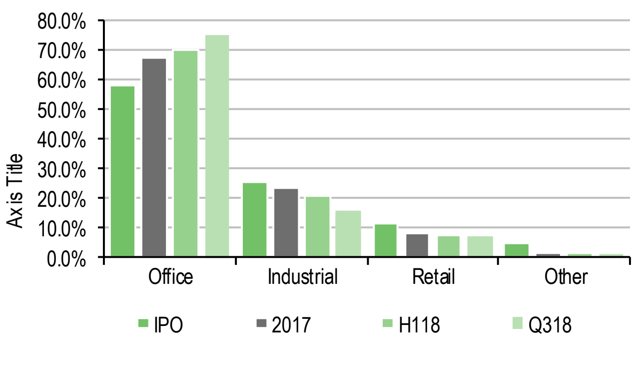
Exhibit 2: Standard industrial classification of tenants as % gross income



Source: Regional REIT

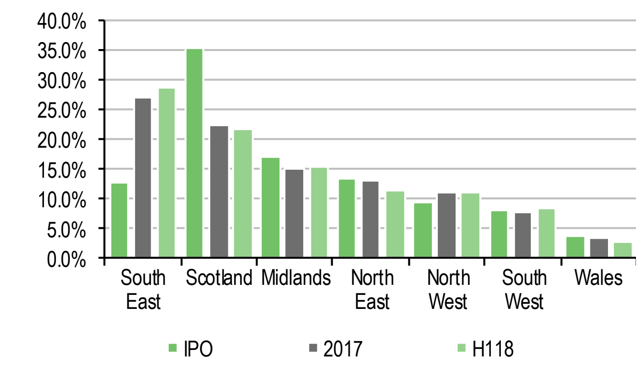
The effect of the portfolio activity during the current year has been to reinforce the strategic direction that RGL has taken since IPO, increasing exposure to better performing areas of the UK such as the south-east and reducing exposure to Scotland further towards an eventual target of 15%. A full geographic breakdown is only available as at the mid-year, but between 30 June and 30 September the weighting to Scotland reduced further, from 21.9% to 17.6%. The share of offices in the portfolio also continues to increase (reaching 75.0% at 30 September) with a corresponding reduction in the industrial weight (to 16.2% at 30 September). Supply and demand imbalances combined with a lack of development to drive further rental growth in the industrial sector. In the office sector, the regional assets are performing well due to the continued demand for space and the potential for rents to increase from relatively low levels. RGL's shift towards offices from industrial properties reflects the range of reinvestment opportunities in the former and the strength of the market in the latter, allowing RGL to lock in asset management benefits.

Exhibit 3: Q318* sector split (by portfolio value)



Source: Regional REIT. *Latest available data 30 September 2018

Exhibit 4: H118* regional split (by portfolio value)



Source: Regional REIT. *Latest available data 30 June 2018.

Financials

Our RGL forecasts were temporarily suspended during the retail eligible bond issue, and we are now reinstating and updating them, taking account of the interim results and Q3 trading update, and the continuing activity within the portfolio.

Compared with our last published forecasts we now expect:

- Lower net rental income due primarily to property sales exceeding property acquisitions. We expect this gap to narrow in FY19 as proceeds from recent sales are reinvested.
- Increased net interest expense in the current year as a result of the retail eligible bond issue, but a reduction next year as the bond proceeds are used to repay expensive debt as it falls due.
- A higher NAV per share, reflecting the progress made in H118.
- Lower net gearing as a result of higher property valuations and net property sales, with LTV falling below 40%.

We have made no changes to our DPS estimates and forecast the dividend to increase in FY19 (+2.5%) and be fully covered by adjusted earnings in that year.

Exhibit 5: Forecast revisions

	Net rental income (£m)			Adjusted EPS* (p)			EPRA NAV (p)			DPS (p)			Net LTV		
	New	Old	% chg.	New	Old	% chg.	New	Old	% chg.	New	Old	% chg.	New	Old	Diff.
12/18e	53.5	56.4	-5%	7.3	8.4	-14%	114.8	112.3	2%	8.05	8.05	0%	39.5%	43.0%	-3.5%
12/19e	56.0	58.2	-4%	8.6	9.2	-7%	118.3	116.8	1%	8.25	8.25	0%	39.1%	42.4%	-3.3%

Source: Edison Investment Research. Note: * Adjusted EPS excludes revaluation movements, gains/losses on disposal, and other non-recurring items, as well as the performance fee accrual included in EPRA earnings and EPS.

A brief summary of the interims and Q3 update

H118 portfolio sales generated significant realised gains above book value and provided a positive pointer for unrealised gains on the remaining portfolio. NAV total return was a strong 11.3%, taking the total since IPO in November 2015 to 32% (or a compound annual 11.0% return).

Exhibit 6: Summary of H118 results

£m unless stated otherwise	H118			H117			H118 v H117
	IFRS	Adjustments	Adj. EPRA earnings	IFRS	Adjustments	Adj. EPRA earnings	Adj. EPRA earnings
Gross rental income	30.6		30.6	23.0		23.0	33%
Non-recoverable property costs	(3.7)		(3.7)	(3.5)		(3.5)	7%
Net rental income	**26.9**	**0.0**	**26.9**	**19.5**		**19.5**	**38%**
Administrative & other expenses	(5.1)		(5.1)	(4.3)		(4.3)	20%
Performance fee	(4.2)	4.2	0.0	(0.9)	0.9	0.0	
Operating profit before gains/(losses) on property	**17.6**	**0.0**	**21.8**	**15.2**	**0.0**	**15.2**	**43%**
Gain on disposal of investment property	7.2	(7.2)	0.0	(0.0)	0.0	0.0	
Change in fair value of investment property	27.9	(27.9)	0.0	7.5	(7.5)	0.0	
Operating profit	**52.8**	**(35.2)**	**21.8**	**22.7**	**(7.5)**	**15.2**	**43%**
Net finance expense	(7.6)		(7.6)	(5.8)		(5.8)	31%
Impairment of goodwill/change in fair value of derivatives	0.0	(0.1)	(0.0)	0.2	(0.3)	(0.1)	
Profit before tax	**45.3**	**(35.2)**	**14.2**	**17.1**	**(7.7)**	**9.4**	**52%**
Tax	(0.4)	0.2	(0.2)	(0.0)		(0.0)	
Net profit	**44.9**	**(35.1)**	**14.0**	**17.1**	**(7.7)**	**9.3**	**50%**
Basic IFRS EPS (p)			12.1			5.6	
Diluted EPRA EPS (p)			2.6			2.9	-8%
Diluted adjusted EPS			**3.8**			**3.2**	**18%**
DPS (p)			**3.70**			**3.60**	**3%**
Diluted EPRA NAV (p)			113.6			107.3	6%
Investment properties			758.7			640.4	18%
Net LTV			**41.2%**			**47.3%**	

Source: Regional REIT

The key highlights of the interim results and more recent activity are:

- Reflecting the acquisitions made in FY17, gross rental income increased 33% to £30.6m and net rental income by 38% to £26.9m. The H118 investment portfolio value of £758.7m was 18.5% higher than at H117.
- H118 saw like-for-like portfolio valuation gains of 4.5%.
- Portfolio occupancy (by value) was 85.5% at end-H118 (end-FY17: 85.0%) and increased to 85.8% at end-Q3. On a like-for-like basis, occupancy (by value) is running at slightly lower levels year-on-year, reflecting the disposal of assets with a high level of occupancy, and the timing of significant office lease maturities.
- H118 recurring administrative expenses increased 20% to £5.1m, driven by the growth in the portfolio and group net assets, with other recurring expenses flat compared with H117. The strong capital growth drove a significant uplift in the investment manager performance fee accrual to £4.2m. Excluding this, the EPRA cost ratio improved to 28.1%.
- The 31% increase in net finance costs, to £7.6m, also reflects the FY17 portfolio growth and increased debt funding.
- Adjusted earnings, which exclude performance fees, increased 50% to £14.0m and adjusted EPS 18% to 3.8p. Including the performance fee accrual, EPRA EPS was 2.6p (H117: 2.9p).
- H118 EPRA NAV per share increased 7.3% to 113.6p (end-FY17: 105.9p).
- Quarterly dividends through FY18 are 2.8% higher than in FY17 and RGL is committed to paying an aggregate dividend per share of 8.05p for the year as a whole, barring unforeseen circumstances.
- Cash reserves significantly increased in H118 to £79.5m (end-FY17: £44.6m) and increased further, to £92.0m at end-Q318. During Q3 £50m was raised through a retail eligible bond issue at 4.5% due in 2024, and £50m of the 5.0% £65m Longbow facility due to mature in August 2019 has been repaid. Cash resources are earmarked for repayment of the c £40m of 6.5% zero dividend preference shares related to the Conygar acquisition on maturity in January 2019, as well as opportunistic, accretive acquisitions.

- The Q3 net LTV had declined to 37.1%, having already declined from 45.0% (December 2017) to 41.2% during H118. We expect acquisitions to push the LTV back up in the near term, but the company is well on track to meet its c 40% target by end FY19.

Forecast growth driven by acquisitions, leasing events and interest savings

The substantial capital recycling during FY18 has generated significant capital gains and provides an opportunity to refresh the portfolio for future growth. With sales crystallising in advance of reinvestment, RGL may be able to benefit from a potentially broader array of opportunities that recently increased Brexit and economic uncertainty may create. However, there is a temporary reduction in income, and this has a noticeable impact on the FY18 adjusted earnings growth and dividend cover. We expect FY19 income, earnings and dividend cover to rebound driven by reinvestment, occupancy and rental growth, and interest savings from the repayment of higher-cost debt. Our main forecasting assumptions are:

- We have included all of the reported property disposals and acquisitions that RGL has disclosed year to date and, in line with management comments that it expects to reinvest some of the proceeds of disposal in the coming months, we have also assumed an additional c £40m (before acquisition costs) of investment, at a net initial yield of 8.0%, in late FY18 and affecting FY19 revenues.
- The Q3 contracted rental income was £59.4m compared with £61.3m at end-H118. We estimate that the impact of the Q3 disposals was c £5.1m and that the announced Q4 sales will increase the impact in H218 as a whole to £5.7m. We estimate that the Q3 portfolio acquisition added an annualised £2.8m, and that our assumed acquisition will add an additional £3.2m by year-end.
- We have assumed a continuing reduction in voids, with portfolio occupancy increasing to 86.0% at end-FY18 and 88.0% at end-FY19, and c 0.5% pa rental growth.
- Our forecast contracted rental income for end-FY18 is £62.4m, increasing to £64.1m at end FY19.
- For H218, gains on disposals, net of disposal costs, are forecast at £9.2m. We have also assumed gross revaluation gains in line with rental growth, but net of forecast acquisition costs there is a negative H218 revaluation movement of c £1.9m. For FY19 we assume a revaluation gain equivalent to 1.5% of the opening value, reflecting rental and occupancy growth, with no assumption of changes in market yields, either up or down. We estimate that a 0.25% increase in market yields would reduce FY19e EPRA NAV per share by 7.5p, while a 0.25% reduction would increase it by 8.1p per share.
- Our IFRS and EPRA earnings forecasts include c £1.1m of further investment manager performance fees in H218, but these are excluded from adjusted earnings. We have allowed for the first settlement of performance fees, covering performance to end-FY18, in early 2019, 50% in new shares and 50% in cash. For FY19 we allow for a performance fee accrual on similar terms.
- We allow for the repayment of the outstanding £15m of the Longbow facility, which bears interest at 5% pa, by end-November as guided by management (£50m of the £65m was repaid in September). We also allow for the repayment of the c £40m of 6.5% zero dividend preference shares (ZDP) at expiry in January 2019. We assume some additional secured borrowing (at 3.5%), but expect end 2019 total gross debt (£353.4m, including unamortised loan arrangement fees) to be lower overall compared with H118 (£392.0m) and Q318 (£360.3m) .

Valuation

In H118, RGL generated a strong 11.3% NAV total return, taking the total since IPO to 32.0% or a compound average annual return of 11.0%. This is within the company's target range of 10–15% and makes no adjustment for IPO costs. The income focus is clear, with growing dividends per share contributing 57% of the total return over the period. Our forecasts indicate a full-year FY18 total return of 16.0% and 10.2% in FY19.

Exhibit 7: NAV total return

	2015*	2016	2017	H118	Since IPO
Opening EPRA NAV per share (p)	100.0	107.8	106.9	105.9	100.0
Closing EPRA NAV per share (p)	107.8	106.9	105.9	113.6	113.6
Dividends per share paid (p)	0.00	6.25	7.80	4.30	18.35
NAV total return (%)	7.8%	5.0%	6.4%	11.3%	32.0%
Compound return (%)					**11.0%**

Source: Company data, Edison Investment Research. Note: *55-day period from 6 November 2015.

The prospective yield of 8.1% continues to position RGL at the very high end of the broad UK property sector, and although partly uncovered by adjusted earnings in the current year, we forecast the DPS to be both higher and fully covered in FY19. The c 13% share price discount to the end-H118 EPRA NAV per share is broadly in line with the average for the overall UK property sector and also the narrower group of peers, with a similar focus on regional commercial property, which we show in Exhibit 8. RGL's prospective yield is also well above the average for this narrower peer group.

Exhibit 8: Peer comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield* (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Circle Property	197	56	0.71	2.8	-1%	-4%	27%	-23%
Custodian REIT	115	454	1.06	5.6	-3%	-4%	0%	-6%
Mucklow	511	323	0.91	4.5	-4%	-5%	0%	-11%
Picton	83	448	0.90	4.2	-2%	-9%	-2%	-11%
Real Est Inv	54	100	0.76	6.5	-2%	-5%	-12%	-14%
Schroder REIT	57	295	0.82	4.4	-6%	-11%	-6%	-15%
Palace Capital	308	141	0.74	6.2	-1%	-6%	-8%	-16%
UK Commercial Property Trust	83	1075	0.88	4.4	-6%	-8%	-5%	-11%
F&C Com Prop	135	1082	0.95	4.4	-2%	-8%	-6%	-13%
F&C UK Real Est Inv	88	213	0.82	5.7	-8%	-9%	-16%	-19%
Average			**0.86**	**4.9**	**-4%**	**-7%**	**-3%**	**-14%**
Median			**0.85**	**4.5**	**-3%**	**-7%**	**-5%**	**-13%**
Regional REIT	**99**	**370**	**0.87**	**8.0**	**-2%**	**5%**	**-4%**	**-6%**
UK property index	1,687			3.0	-2%	-6%	-3%	-11%
FTSE All-Share Index	3,835			1.8	-1%	-9%	-6%	-12%

Source: Company data, Edison Investment Research. Note: *Last reported EPRA NAV per share and trailing 12-month DPS declared. Prices as at 20 November 2018.

RGL shares have performed more strongly than the peer group on a three-month basis, following strong interim results, but have performed broadly in line over 12 months. Given the high prospective yield, the prospect of a return to fully covered dividends in FY19 and further reduction in LTV are both catalysts for a further re-rating of the shares. Moreover, the anticipated benefits of repayment of relatively expensive debt should generate earnings growth quite independently of market conditions or the success of management's asset management strategies.

Exhibit 9: Financial summary

Year end 31 December (£000's)	2015	2016	2017	2018e	2019e
PROFIT & LOSS	IFRS	IFRS	IFRS	IFRS	IFRS
Gross rental income	5,361	42,994	52,349	60,683	63,242
Non-recoverable property costs	(754)	(4,866)	(6,502)	(7,197)	(7,278)
Revenue	4,608	38,128	45,847	53,487	55,964
Administrative expenses (excluding performance fees)	(1,353)	(7,968)	(7,819)	(10,260)	(10,549)
Performance fees	0	(249)	(1,610)	(5,238)	(1,318)
EBITDA	3,255	29,911	36,418	37,989	44,097
EPRA cost ratio	N/M	29.6%	29.7%	36.8%	29.6%
EPRA cost ratio excluding performance fee	N/M	29.0%	26.6%	28.1%	27.5%
Gain on disposal of investment properties	87	518	1,234	16,404	0
Change in fair value of investment properties	23,784	(6,751)	5,893	26,065	11,420
Operating profit before financing costs	27,126	23,678	43,545	80,457	55,517
Exceptional items	(5,296)	0	0	0	0
Net finance expense	(820)	(8,629)	(14,513)	(15,756)	(13,061)
Net movement in the fair value of derivative financial investments and impairment of goodwill	115	(1,654)	(340)	39	0
Profit Before Tax	21,124	13,395	28,692	64,741	42,456
Tax	0	23	(1,632)	(355)	0
Profit After Tax (FRS 3)	21,124	13,418	27,060	64,386	42,456
Adjusted for the following:					
Net gain/(loss) on revaluation/disposal of investment properties	(23,870)	6,233	(7,127)	(42,469)	(11,420)
Net movement in the fair value of derivative financial investments	(180)	865	(407)	(362)	0
Other EPRA adjustments including deferred tax adjustment	0	557	4,488	473	0
EPRA earnings	(-2,926)	21,073	24,014	22,028	31,036
Performance fees & exceptional items	5,296	249	1,610	5,238	1,318
Adjusted earnings	2,371	21,322	25,624	27,266	32,354
Period end number of shares (m)	274.2	274.2	372.8	372.8	376.4
Fully diluted average number of shares outstanding (m)	274.2	274.3	297.7	375.5	377.3
IFRS EPS - fully diluted (p)	7.7	4.9	9.7	17.4	11.3
Adjusted EPS, fully diluted (p)	0.9	7.8	8.6	7.3	8.6
EPRA EPS, fully diluted (p)	(1.1)	7.7	8.1	5.9	8.2
Dividend per share, declared basis (p)	1.00	7.65	7.85	8.05	8.25
Dividend cover	N/A	102%	110%	90%	104%
BALANCE SHEET					
Non-current assets	407,492	506,401	740,928	759,364	778,784
Investment properties	403,703	502,425	737,330	756,478	775,898
Other non-current assets	3,790	3,976	3,598	2,886	2,886
Current Assets	35,803	27,574	66,587	115,264	69,081
Other current assets	11,848	11,375	21,947	21,040	19,105
Cash and equivalents	23,954	16,199	44,640	94,224	49,976
Current Liabilities	(21,485)	(23,285)	(42,644)	(95,493)	(52,486)
Bank and loan borrowings - current	(200)	0	(400)	(39,795)	0
Other current liabilities	(21,285)	(23,285)	(42,244)	(55,698)	(52,486)
Non-current liabilities	(126,469)	(218,955)	(371,972)	(349,600)	(350,600)
Bank and loan borrowings - non-current	(126,469)	(217,442)	(371,220)	(349,166)	(350,166)
Other non-current liabilities	0	(1,513)	(752)	(434)	(434)
Net Assets	295,341	291,735	392,899	429,536	444,779
Derivative interest rate swaps & deferred tax liability	416	1,513	2,802	2,678	2,678
EPRA net assets	295,757	293,248	395,701	432,214	447,457
IFRS NAV per share (p)	107.7	106.4	105.4	115.2	118.2
Fully diluted EPRA NAV per share (p)	107.8	106.9	105.9	114.8	118.3
CASH FLOW					
Cash (used in)/generated from operations	(2,232)	31,434	40,251	49,709	42,820
Net finance expense	(424)	(6,626)	(9,167)	(12,071)	(12,061)
Tax paid	0	(1,715)	(236)	(131)	0
Net cash flow from operations	(2,656)	23,093	30,848	37,507	30,759
Net investment in investment properties	1,157	(99,286)	(8,267)	26,710	(8,000)
Acquisition of subsidiaries, net of cash acquired	26,659	(5,573)	(51,866)	(2,332)	0
Other investing activity	13	60	25	59	0
Net cash flow from investing activities	27,828	(104,799)	(60,108)	24,437	(8,000)
Equity dividends paid	0	(15,723)	(23,321)	(23,034)	(30,774)
Debt drawn/(repaid) - inc bonds and ZDP	(1,217)	91,417	13,921	12,327	0
Other financing activity	0	(1,744)	67,101	(1,653)	(36,233)
Net cash flow from financing activity	(1,217)	73,950	57,701	(12,360)	(67,007)
Net Cash Flow	23,955	(7,756)	28,441	49,584	(44,248)
Opening cash	0	23,955	16,199	44,640	94,224
Closing cash	23,955	16,199	44,640	94,224	49,976
Balance sheet debt	(126,669)	(217,442)	(371,620)	(388,961)	(350,166)
Unamortised debt costs	(1,875)	(2,618)	(4,693)	(4,195)	(3,195)
Closing net debt	(104,588)	(203,861)	(331,673)	(298,932)	(303,385)
LTV	25.9%	40.6%	45.0%	39.5%	39.1%

Source: Company accounts, Edison Investment Research

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