Palace Capital

Interim results

Significant potential for income and capital growth

Real estate

Palace Capital (PCA) has published its interim results for the six months to 30 September 2018 and has also exchanged contracts for the sale of 50 low-yielding, non-core residential units, acquired as part of last year's RT Warren acquisition. After a year of significant developments at PCA, preparing the ground for the next stage of growth, H119 has been a period of consolidation, although the company has continued to deliver income and capital growth, generating a NAV total return of 4.0% in the period.

Year end	Net rental income (£m)	Adj. PBT* (£m)	Adj. EPS* (p)	EPRA NAV/ share (p)**	P/NAV (x)	DPS (p)	Yield (%)
03/17	12.2	6.7	22.2	443	0.66	18.5	6.3
03/18	14.9	8.5	21.2	414	0.71	19.0	6.5
03/19e	16.2	9.2	17.1	416	0.71	19.0	6.5
03/20e	17.0	9.5	17.6	420	0.70	19.0	6.5

Note: *Adjusted earnings: in addition to EPRA adjustments for revaluation gains, profits or losses on disposals of investment properties and surrender gains on early lease terminations, this adjusts for share-based payments and Main Market listing costs. **EPRA NAV is fully diluted.

H119 results and developments

H119 income grew strongly compared with H118, driven by the RT Warren acquisition, and capital values continued to increase during the period. EPRA NAV increased to 421p and including dividends (unchanged at 9.5p) the total return was 4.0%. Adjusted EPS (7.7p) and dividend cover (84%) were depressed by cash drag from the October 2017 capital raise, but dividend policy is unchanged, with PCA expecting income to grow as a result of asset management initiatives and accretive acquisitions. Reinvestment of the £18.2m proceeds from the residential asset disposal into higher-yielding commercial assets will enhance earnings. Estimated rental value (ERV) is £21.1m, more than 20% above passing rent of £17.4m. Despite letting successes, the latter is below the March level, with occupancy slightly lower at 88% (March: 90%). This drives the c 5% reduction in our forecast FY19 adjusted PBT, and our DPS is now held flat in line with guidance.

Strong total return record

Palace is not a REIT and while it seeks to generate returns by growing recurring income, it also has a parallel focus on increasing capital values. It has built a strong track record of value creation over a number of years, primarily driven by corporate acquisitions, which additionally benefit from lower stamp duty and provide the potential to benefit from acquired tax losses and capital allowances. NAV total return in the five years from September 2013 (H114) to end-H119 is 126.1% or a compound 17.7% pa. Strong reversionary potential and a range of opportunities to further reposition and grow the portfolio are positive indicators for future returns.

Valuation

With a yield of 6.5% and a c 30% discount to EPRA NAV, the PCA valuation is below the peer group (Exhibit 8) even before factoring in the significant potential embedded in the current portfolio, including the significant Hudson Quarter development in York.

3 December 2018

Price	**292p**
Market cap	**£135m**

Net debt (£m) as at 30 September 2018	86.1
Net LTV as at 30 September 2018	30.3%
Shares in issue	45.8m
Free float	95.4%
Code	PCA
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(5.8)	(7.0)	(12.2)
Rel (local)	(3.8)	(0.1)	(7.4)
52-week high/low		364p	292p

Business description

Palace Capital is a UK property investment company listed on the Main Market of the LSE. It is not sector-specific and looks for opportunities where it can enhance the long-term income and capital value through asset management and strategic capital development in locations outside London.

Next event

Q219 interim DPS paid	28 December 2018

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Investment summary

The six months ending 30 September 2018 (H119) may be viewed as a period of consolidation, following a year of significant developments that have prepared PCA for its next stage of growth. Last October, PCA completed the £68m acquisition of RT Warren, its largest portfolio acquisition to date, and management says the most attractive portfolio available to it in several years. Funding was provided by a £70m equity issue, and with the share capital enlarged, a move to the Main Market of the London Stock Exchange followed in March 2018. In June 2018, the shares joined the FTSE Small Cap Index and the FTSE All Share Index. H119 income grew strongly compared with H118, driven by the RT Warren acquisition, and capital values continued to increase during the period. EPS and dividend cover were depressed as a result of cash drag from the capital raise midway through H218, with only modest transaction activity as management maintained a disciplined approach towards acquisitions. The company has signalled no change to dividend policy, expecting income growth to restore cover as a result of ongoing asset management initiatives, leasing events providing the opportunity to capture some of the strong reversionary potential in the portfolio, and accretive acquisitions, potentially made easier by the recent heightening of Brexit uncertainties.

Exhibit 1: Summary of interim results

£000s, unless stated otherwise	H119	H118	H119 v H118	2018
Adjusted earnings:				
Rental and other income	9,210	7,138	29%	16,733
Non-recoverable property costs	(1,101)	(675)		(1,824)
Net rental income	**8,109**	**6,463**	**25%**	**14,909**
Administrative expenses	(1,872)	(1,387)	35%	(3,313)
Operating profit before gains/(losses) on property assets	**6,237**	**5,076**	**23%**	**11,596**
Finance costs	(1,942)	(1,354)	43%	(3,124)
Adjusted PBT	**4,295**	**3,722**	**15%**	**8,471**
Taxation	(637)	(507)		(1,072)
Adjusted net profit	**3,658**	**3,215**	**14%**	**7,399**
Share-based payments	(113)	(100)		(174)
Costs in respect of move to main market	0	0		(698)
EPRA earnings	**3,545**	**3,115**	**14%**	**6,527**
Gains on revaluation of investment properties	3,880	1,396		5,738
Profit/(loss) on disposal on non-current assets	211	(159)		274
Debt termination costs	0	0		(127)
Fair value loss on derivatives	77	0		(181)
Deferred tax relating to EPRA adjustments	(441)	0		299
IFRS net profit	**7,272**	**4,352**	**67%**	**12,530**
Basic adjusted EPS (p)*	**8.0**	**12.8**	**-38%**	**21.2**
Diluted EPRA EPS (p)*	7.7	12.4		18.7
Basic IFRS EPS (p)	15.9	17.3		35.8
DPS declared (p)	9.5	9.5		19.0
Dividend cover (adjusted earnings)	0.84	1.35		1.11
Diluted EPRA NAV per share (p)	**421**	**451**		**414**
IFRS NAV per share (p)	407	442		400
NAV total return	4.0%	4.1%		-2.1%
Investment portfolio (inc held for sale)**	283,333	202,840	40%	276,732
Net LTV	30.3%	41.9%		30.0%

Source: Palace Capital. Note: *adjusted earnings on a diluted basis: H119 7.7p; H118 12.4p; FY18 21.2p. **Differs from balance sheet value due to leasehold and lease incentive adjustments.

- The portfolio fair value increased by 2.4% to £283.3m during H119 but was up a much larger c 40% compared to H118, primarily due to the RT Warren acquisition in H218. The like-for-like H119 increase was 1.7% and portfolio total return, on an ungeared basis including income, was 5.3% (MSCI IPD Quarterly Benchmark: 3.3%). The end-H119 net initial yield on the portfolio was 5.8% and the reversionary yield was 7.6%.

- There was one disposal during the period, for £0.95m, 30.1% above the 31 March 2018 book value. A small, vacant office building in Fareham, adjacent to an existing property owned by PCA, was acquired for £0.75m. Management is evaluating its options on the site, with the existing property part-let until March 2019. Management continues to pursue accretive acquisitions but says that that it was difficult to find properties meeting its financial and operational investment criteria in the H119 investment market environment.
- Since the end of H119, PCA has agreed the sale of 50 of the remaining 60 non-core, low-yielding residential assets acquired with RT Warren, to the London Borough of Barnet. The discount to book value is a modest 3% and will generate proceeds (before the costs of disposal) of £18.2m for redeployment in PCA's core commercial activities, at a significantly higher yield.
- Reflecting the increased portfolio scale, gross rental income increased c 29% to £9.2m. The increase in net rental income was a slightly lower c 25% (to £8.1m), reflecting an increase in non-recoverable property operating expenses.
- There were 22 lease events in the period, across 140,000 sq ft of space, with lettings at an average 9% above ERV. Despite these positive letting gains, the end-H119 overall annualised contracted rental income was a little lower than in March 2018 (£17.4m versus £17.9m), with the losses spread broadly across the portfolio and sectors. Period-end EPRA occupancy was 88% compared with 90% in March. The reversionary potential embedded in the existing portfolio remains strong, with an ERV of £21.1m.
- ERV includes no contribution from Hudson House, where demolition is close to completion, and construction on the new Hudson Quarter development will begin in early 2019.
- The year-on-year increase in administrative expenses reflects the growth in the company, including additions to the property management team. PCA believes that it is well placed to grow further with only a marginal impact on administrative costs.
- Net finance costs increased year-on-year, reflecting portfolio growth/higher average debt and the increased average cost of debt associated with the interest rate hedging that has been put in place. The end-H119 average cost of debt was 3.5%, 70% fixed/hedged. The LTV was a conservative 30.3%.
- Adjusted PBT (similar to EPRA earnings except that it also adjusts for share-based payments costs, £113k in the period) was up 15% compared to H118, to £4.3m. Adjusted net profit increased 14% to £3.7m. Diluted adjusted EPS (7.7p) was lower as a result of the October capital increase. Quarterly dividends have continued at a rate of 4.75p per quarter, or 9.5p in the period. The company is signalling no change to dividend policy, anticipating that the 84% dividend cover in the period will be materially improved by income growth resulting from the impact of asset management initiatives in capturing reversionary potential through letting activity, and accretive acquisitions. EPRA NAV total return was 4.0% in the period.

In a positive outlook statement, management points to the strong potential within the current portfolio to continue to extract value through income and capital growth. ERV is more than 20% above the current contracted rent roll. Heightened Brexit uncertainty may create additional opportunities to reinvest by cooling the investment markets, and meanwhile occupational demand appears robust. The regional office and industrial markets continue to benefit from supply and demand imbalances. The office sector (c 50% of the portfolio) is benefiting in many areas from continuing take-up, a lack of new development and the conversion of office space to residential use.

The Hudson Quarter development

After many years of negotiation, PCA received optimal planning consent in August 2017 for the redevelopment of its two-acre site in York, within the city walls and just a minute's walk from the York railway station. The scheme comprises three residential buildings and an office building, and will provide 127 flats, 5,000 sq ft of retail/restaurant space, 34,500 sq ft of offices, and car parking. Demolition of the site is nearing completion with a view to commencing construction in February 2019. Construction is expected to take around two years, with marketing commencing around the middle of 2019 and a website for the project has recently been launched (www.hudsonquarteryork.com). The York office market is strong and the city was recently voted by The Sunday Times as the best place in the UK to live (2018).

PCA has agreed heads of terms with a leading bank to finance the construction element.

Hudson Quarter financial impact

Our base-case forecasts (extended out to end-FY21) capture the balance sheet impact of our estimate of the costs of development. For now, our base case estimates capture none of the capital or income uplift potential, although we provide a sensitivity analysis below.

Although PCA is yet to provide any firm guidance on the financial impact of the Hudson Quarter development, we feel it prudent to allow for our estimate of the costs of development that will be incurred over the next two years in our financial forecasts. Our assumptions for these costs, based on discussion with management, are shown in Exhibit 2 below. The existing site value, included within the current portfolio valuation, is c £16.8m, and we have allowed for construction costs of £35m. To fund the construction costs, we have assumed a development loan facility of similar size, to which we have applied a 4% margin over Libor to drawn amounts, and a 2% cost to undrawn amounts (to cover arrangement fees, facility fees, etc). We have assumed that development funding is drawn steadily over the two year construction period, with the interest costs capitalised.

Exhibit 2: Hudson Quarter development cost assumptions

£000s	
Current site value	16,800
Construction costs	35,000
Capitalised interest	2,576
Total costs, including site costs	**54,376**

Source: Edison Investment Research

The impact of our Hudson Quarter development assumptions on our base-case forecasts is to steadily increase the investment portfolio value (as development spending and capitalised interest are incurred) and the group LTV ratio including the development funding drawn. There is no impact on our income statement forecasts.

PCA is yet to disclose the development profit that it is targeting from the Hudson Quarter development, representing the gap between the expected post-completion market value (the gross development value, or GDV) and the total development costs (our estimate £54.4m). However, the potential positive impact on net asset value is significant. We expect PCA to retain the commercial building, and possibly some the residential assets, for the rental portfolio, with a positive impact on income earnings. The assets disposed of would crystallise any capital uplift and reduce gearing.

The potential value creation is very material in the context of the group, but due to the options for post-completion hold/sell strategies, and the uncertainties about GDV and rental value, it remains too early to build this into our base forecasts.

In Exhibit 3, we show the impact on our FY21e EPRA NAV per share from a range of assumed development profit margins, applied to our estimated costs.

Exhibit 3: NAV sensitivity to assumed Hudson Quarter GDV

Development profit margin (%)	5%	10%	15%	20%	25%	30%
GDV	57,095	59,813	62,532	65,251	67,970	70,689
Uplift to diluted EPRA NAV per share (p)	6	12	18	24	30	36
Uplift to diluted EPRA NAV per share (%)	1%	3%	4%	6%	7%	8%

Source: Edison Investment Research. Note: Assumes no sales to trigger payment of deferred tax.

In Exhibit 4, we illustrate our thoughts on the income and valuation potential for the Hudson Quarter commercial space in current market conditions. We believe that PCA is likely to retain this post-completion, and we estimate a rent potential of c £963k pa and a potential GDV of £15.6m (a blended yield of 6.2%). Based on this estimate, the commercial space has the potential to lift our base case FY21e rental and other income of £19.3m by c 5% on an annualised basis.

Exhibit 4: Hudson Quarter – Edison illustration for commercial space

Commercial GLA (sq ft)	
Retail/restaurant	5,000
Office	34,500
Total GLA	**39,500**
Rent (£ per sq ft)	
Retail/restaurant	20
Office	25
Average rent per sq ft	**24**
Gross rental income (£000s)	
Retail/restaurant	100,000
Office	862,500
Total rental income	**962,500**
Yield	
Retail/restaurant	8.0%
Office	6.0%
Average yield	**6.2%**
Valuation	
Retail/restaurant	1,250,000
Office	14,375,000
Total valuation	**15,625,000**

Source: Edison Investment Research

Notwithstanding the fact that PCA may choose to retain a part of the residential space, based on our estimates for the commercial GDV, and assuming a 20% overall development profit margin for the scheme (GDV £65.3m), a sale of all of the residential assets would reduce the base-case LTV for FY21 from 40.6% to c 29%. The proceeds from sale would allow for repayment of the development loan and an additional c £12m of bank debt. Exhibit 5 brings the impact of all of these assumptions on the base-case FY21e earnings and balance sheet together:

- development profit of 20% and GDV of £65.3m;
- retention of commercial space, adding £963k pa to income
- sale of residential assets for £49.6m (the GDV less the retained value of the commercial asset);
- payment of deferred tax on the realised gain (assumed 17%);
- repayment of development loan and c £18m of additional borrowing; and
- **On this basis, we estimate a potential 14% increase in adjusted EPS, a 5% increase in EPRA NAV per share and an 11.6 percentage point reduction in LTV.**

Exhibit 5: Illustrative impact of combined Hudson Quarter assumptions			
£000s, unless stated otherwise	**Pro-forma**	**Existing**	**Uplift**
Income account			
FY21e adjusted PBT	9,932		
Add commercial income	963		
Interest saving	427		
PBT	11,321	9,932	
Tax rate	15.0%	15.0%	
Tax	(1,698)	(1,490)	
Net adjusted earnings	9,623	8,442	
Fully diluted adjusted EPS	**20.9**	**18.4**	**14%**
Balance sheet			
Development profit	10,875		
Deferred tax payment on part sale	(1,406)		
EPRA NAV	205,292	195,823	
Diluted EPRA NAV per share	**447**	**427**	**5%**
LTV	**29.4%**	**40.6%**	**-11.3 ppt**

Source: Edison Investment Research

Clearly, there are risks attached to our analysis and to development activity in general. We have been explicit about the assumptions that we have made, but the actual outcome could differ materially from what we have assumed, especially at planned completion in 2021, when market conditions may have shifted. Development activity runs risks of cost overrun or delay, and the development activity is being undertaken on a ‘speculative’ basis, although we expect PCA to target pre-sales of residential space and pre-letting of commercial space well ahead of completion.

Financials

Our revised estimates are shown in Exhibit 6. The reduction in H119 rent roll to £17.4m has a negative impact on our forecast gross rental income, which, together with slightly higher non-recoverable property operating costs, reduces our forecast net rental income for the current year (FY19). This is the main driver of the reduction in forecast FY19 adjusted PBT, although much of the impact on adjusted EPS is offset by lower expected effective tax rate. Forecast EPRA NAV per share is slightly increased as a result of the H119 performance. Management has signalled an unchanged dividend policy, which we interpret to mean an unchanged DPS for the current year, and is confident of future income growth that will restore cover. As noted below, our base-case forecasts conservatively reflect only a part of this potential and we show a flat DPS progression accordingly.

Exhibit 6: Estimate revisions

	Net rental income (£m)			Adjusted PBT (£m)			Adjusted EPS (p)			EPRA NAV (p)			DPS (p)		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
03/19e	16.9	16.2	(3.8)	9.7	9.2	(5.3)	17.2	17.1	(0.8)	418	416	(0.6)	19.5	19.0	(2.6)
03/20e	17.5	17.0	(2.8)	10.2	9.5	(6.8)	18.1	17.6	(2.8)	422	420	(0.5)	19.5	19.0	(2.6)
03/21e	N/A	17.6	N/A	N/A	9.9	N/A	N/A	18.4	N/A	N/A	427	N/A	N/A	19.0	N/A

Source: Edison Investment Research

Our key forecasting assumptions are as follows:

- Although management makes clear its intention to pursue accretive acquisitions, we have assumed only limited portfolio activity, allowing for completion of the sale of 50 residential assets as of end-FY19, and for reinvestment of a similar amount (£20m) at a notional 8% yield by end-Q120. The positive yield arbitrage between the residential assets and the assumed reinvestment yield is a main driver of FY20e growth.
- We have allowed for 1% pa like-for-like rental growth through to end-FY20 only. Occupancy is assumed to improve by 1% to 89% by end-FY20, and to 90% by end-FY21. We note that this captures only a small part of the reversionary potential in the existing portfolio, with an ERV at 30 September 2018 of £21.1m, compared to the £17.4m contracted rent roll.

- We have commented in the section above about the impact of the Hudson Quarter development on the base-case forecasts. The impact is primarily on LTV as a result of the development funding taken on during the construction phase, with no impact on forecast earnings as a result of the development loan interest being capitalised. In the section above, we also illustrate the potential for the development to lift adjusted earnings and NAV at completion, and lower LTV, although this is not reflected in our base-case forecasts.
- The assumed revaluation gains reflect the impact of our assumed rental growth, with no assumption of market yield movements, either up or down.
- The sales of the residential asset will crystallise a c £3m deferred tax liability assumed on acquisition. There is no impact on IFRS net assets, but the EPRA deferred tax add-back will reduce.
- During the timeframe of our forecast period, we think it likely that PCA may bring forward other development projects from within the existing portfolio, although none is assumed. We would expect any commercial asset development to be balanced with the desire to maintain and grow core income.
- Including unamortised loan facility costs, drawn debt at end-H119 was £99.2m. The group had unused loan facilities amounting to £15.0m. Our estimate gross drawn debt at end-FY21 assumes that this unused facility is drawn and also includes the assumed Hudson Quarter development loan facility discussed above. The 40.6% LTV shown includes no development gain from Hudson Quarter and no Hudson Quarter post completion divestment. Both factors have the potential to reduce LTV back to below 30%.

Valuation

Palace is not a REIT and while it seeks to generate returns by growing recurring income it also has a parallel focus on increasing capital values. It has built a strong track record of value creation over a number of years, primarily driven by corporate acquisitions that additionally benefit from lower stamp duty and provide the potential to benefit from acquired tax losses and capital allowances. NAV total return in the five years from September 2013 (H114) to end-H119 is 126.1% or a compound 17.7% pa. We have begun the analysis at H114 because this corresponds to the acquisition of the Sequel portfolio, Palace's first transformational acquisition. The negative total return in FY18 resulted from the share issuance to fund the RT Warren portfolio and captures none of the future asset management-driven value creation that management hopes to achieve from this, its largest portfolio acquisition to date.

Exhibit 7: Strong NAV total return record

	H214	FY15	FY16	FY17	FY18	H119	H214–H119
Opening EPRA NAV per share (p)	218	341	388	414	443	414	218
Closing EPRA NAV per share (p)	341	388	414	443	414	421	421
Dividend per share paid (p)	2.5	8.50	14.00	18.00	19.00	9.50	72
NAV total return (p)	126	55	41	46	(9)	16	275
NAV total return (%)	57.8%	16.0%	10.5%	11.2%	-2.1%	4.0%	126.1%
Compound annual average total return (%)							**17.7%**

Source: Palace Capital, Edison Investment Research

Exhibit 8 shows summary valuation and performance data for PCA and a peer group of UK commercial real-estate investment companies with a strong regional focus. There has been a tendency for the share prices of those companies with a strong focus on income returns to show greater resilience over the past 12 months, particularly where dividend cover is also above average. The market's valuation of capital-based returns has shown a tendency to weaken. PCA shares now yield more than 6%, among the highest in the group, and the P/NAV discount is also well above the peer group average. Given the strong track record of total return generation and the potential to drive further strong returns from the existing portfolio and through accretive acquisitions, the valuation appears particularly undemanding. Increasing investor awareness of PCA's plans for the Hudson Quarter, its ability to fund the required investment and the scale of potential upside may serve as a catalyst for a re-rating of the shares.

Exhibit 8: Peer comparison

	Price (p)	Market cap (£m)	P/NAV (x)	Yield (%)	Share price performance			
					1M	3M	12M	From 12M high
Circle Property	199	56	0.72	2.8	0%	-3%	29%	-22%
Custodian REIT	115	454	1.06	5.6	-2%	-4%	0%	-6%
Mucklow	512	324	0.92	4.4	-2%	-4%	0%	-11%
Picton	84	453	0.91	4.2	-3%	-9%	-2%	-10%
Real Est Inv	55	103	0.78	6.4	1%	-4%	-9%	-11%
Regional REIT	98	365	0.86	8.1	-2%	3%	-6%	-6%
Schroder REIT	55	285	0.80	4.5	-7%	-18%	-9%	-18%
UK Commercial Property Trust	83	1073	0.88	4.5	-4%	-8%	-7%	-10%
F&C Com Prop	138	1100	0.97	4.4	3%	-8%	-3%	-11%
F&C UK Real Est Inv	88	212	0.82	5.7	-7%	-12%	-16%	-19%
Average			**0.87**	**5.1**	**-2%**	**-7%**	**-2%**	**-13%**
Median			**0.87**	**4.5**	**-2%**	**-6%**	**-4%**	**-11%**
Palace Capital	294	135	0.71	6.5	0%	-9%	-11%	-20%
UK property index	1,705			3.0	-4%	-9%	-5%	-13%
FTSE All-Share Index	3,853			1.7	0%	-8%	-5%	-11%

Source: Palace Capital, Edison Investment Research. Note: *last reported EPRA NAV per share and trailing 12-month DPS declared. Prices as at 29 November 2018.

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Exhibit 9: Financial summary

Year end 31 March	£'000s	2014	2015	2016	2017	2018	2019e	2020e	2021e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Rental & other income		3,252	8,637	14,593	14,266	16,733	17,932	18,685	19,252
Non-recoverable property costs		(648)	(1,200)	(1,624)	(2,055)	(1,824)	(1,701)	(1,713)	(1,613)
Net rental income		2,604	7,437	12,969	12,211	14,909	16,231	16,972	17,639
Administrative expenses		(649)	(1,439)	(2,048)	(2,915)	(4,185)	(3,485)	(3,590)	(3,697)
Operating Profit (before capital items)		1,955	5,998	10,921	9,296	10,724	12,746	13,382	13,941
Revaluation of investment properties		19,501	9,769	3,620	3,101	5,738	5,181	2,768	3,173
Costs of acquisitions/profits on disposals		270	(461)	(525)	3,191	274	(689)	0	0
Operating Profit		21,725	15,306	14,016	15,588	16,736	17,238	16,150	17,114
Net Interest expense		(573)	(1,398)	(2,264)	(3,011)	(3,432)	(3,786)	(4,105)	(4,236)
Profit Before Tax		21,153	13,909	11,752	12,577	13,304	13,452	12,045	12,878
Taxation		81	107	(953)	(3,191)	(773)	(1,800)	(1,426)	(1,490)
Profit After Tax (FRS 3)		21,234	14,015	10,799	9,386	12,531	11,652	10,619	11,389
EPRA adjustments:									
Revaluation of investment properties		(19,501)	(9,769)	(3,620)	(3,101)	(5,738)	(5,181)	(2,768)	(3,173)
Costs of acquisitions/profits on disposals		(270)	461	525	(3,191)	(274)	689	0	0
Deferred tax charge		0	0	0	2,200	(299)	441	0	0
Other adjustments		0	0	0	155	308	0	0	0
EPRA earnings		1,463	4,707	7,704	5,449	6,528	7,601	7,852	8,216
Adjusted for:									
Non-recurring items		0	0	(3,172)	0	698	0	0	0
Share-based payments		12	114	110	237	174	226	226	226
Adjusted earnings		1,475	4,821	4,642	5,686	7,400	7,827	8,078	8,442
Company adjusted PBT		1,394	4,714	5,595	6,677	8,472	9,186	9,503	9,932
Average fully diluted number of shares (000s)		5,264	17,489	24,618	25,738	34,980	45,932	45,951	45,951
Basic EPS - FRS 3 (p)		403.4	80.1	43.9	36.5	35.8	25.4	23.1	0.0
Fully diluted EPRA EPS (p)		29.1	26.9	31.3	21.2	18.7	16.5	17.1	17.9
Fully diluted adjusted EPS (p)		31.4	28.3	18.9	22.2	21.2	17.1	17.6	18.4
Dividend per share declared (p)		4.5	13.0	16.0	18.5	19.0	19.0	19.0	19.0
EPRA dividend cover (x)		6.47	2.07	1.96	1.14	0.98	0.87	0.90	0.94
BALANCE SHEET									
Fixed Assets		60,086	104,470	175,738	183,959	253,984	265,627	310,891	335,598
Investment properties		59,440	102,988	174,542	183,916	253,863	265,524	310,788	335,495
Goodwill		6	6	0	0	0	0	0	0
Other non-current assets		640	1,475	1,196	43	121	103	103	103
Current Assets		7,060	15,653	11,903	13,692	24,584	32,280	18,534	14,774
Debtors		1,937	3,375	3,327	2,511	5,551	4,873	5,193	5,306
Cash		5,123	12,279	8,576	11,181	19,033	27,407	13,341	9,468
Current Liabilities		(4,171)	(3,487)	(9,048)	(8,197)	(11,520)	(15,058)	(15,644)	(15,853)
Creditors		(2,971)	(3,087)	(6,815)	(6,161)	(8,834)	(8,934)	(9,520)	(9,729)
Short term borrowings		(1,200)	(400)	(2,233)	(2,036)	(2,686)	(6,124)	(6,124)	(6,124)
Long Term Liabilities		(18,599)	(36,620)	(71,778)	(79,895)	(105,276)	(97,401)	(107,701)	(108,001)
Long term borrowings		(17,384)	(35,407)	(69,711)	(75,758)	(97,157)	(91,842)	(102,142)	(102,442)
Deferred tax		0	0	0	(2,187)	(6,531)	(3,972)	(3,972)	(3,972)
Other long-term liabilities		(1,215)	(1,214)	(2,067)	(1,950)	(1,588)	(1,587)	(1,587)	(1,587)
Net Assets		44,376	80,016	106,815	109,559	161,772	185,449	206,080	226,519
EPRA net assets		44,370	80,010	106,924	111,759	190,011	190,783	192,919	195,823
Basic NAV/share (p)		357	396	414	436	400	408	412	419
Diluted EPRA NAV/share (p)		341	388	414	443	414	416	420	427
CASH FLOW									
Operating Cash Flow		1,297	4,388	12,287	10,294	9,899	13,221	13,875	14,262
Net Interest		(390)	(1,593)	(3,421)	(2,516)	(2,704)	(3,380)	(3,805)	(3,936)
Tax		(13)	(15)	(158)	(1,047)	(395)	(3,713)	(1,426)	(1,490)
Net cash from investing activities		2,532	(2,922)	(50,012)	(3,352)	(67,725)	12,061	(41,500)	(20,042)
Ordinary dividends paid		0	(1,766)	(3,221)	(4,617)	(6,744)	(8,710)	(8,710)	(8,710)
Debt drawn/(repaid)		(21,266)	(10,600)	21,272	6,467	7,066	(739)	27,500	16,042
Proceeds from shares issued		23,009	19,664	19,114	29	67,651	0	0	0
Other cash flow from financing activities		(84)	(2)	(2)	(2,897)	0	(30)	0	0
Net Cash Flow		5,085	7,155	(4,141)	2,361	7,048	8,709	(14,066)	(3,874)
Opening balance sheet cash		39	5,123	12,278	8,576	10,937	17,985	26,695	12,629
Restricted cash		0	0	0	244	1,048	713	713	713
Other items (including cash assumed on acquisition)		0	0	439	0	0	0	0	0
Closing balance sheet cash		5,123	12,278	8,576	11,181	19,033	27,408	13,342	9,468
Closing balance sheet debt		18,294	35,807	71,944	77,794	99,843	99,511	128,307	146,142
Unamortised debt costs		239	399	734	936	1,107	1,239	939	639
Closing net debt/(cash)		12,931	23,130	62,634	65,677	79,703	70,865	114,027	136,035
Net LTV (exc restricted cash & adjusted for unamortised debt costs)		23.0%	23.3%	37.0%	36.9%	30.0%	27.4%	37.0%	40.6%

Source: Palace Capital, Edison Investment Research

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