

# Palace Capital

## Positive reinvestment of residential proceeds

Following the agreed £18.2m sale of most of the non-core residential assets acquired with the RT Warren portfolio last year, Palace Capital (PCA) has acquired a quality, mostly office building, in the heart of Liverpool for c £14m. The transactions represent a significantly positive yield arbitrage, enhancing existing strong reversionary potential. Further opportunities reposition and grow the portfolio, including the Hudson Quarter development in York, and are positive indicators for future growth.

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	0.74	18.5	5.6
03/18	14.9	8.5	21.2	414	0.79	19.0	5.8
03/19e	16.2	9.2	17.1	416	0.79	19.0	5.8
03/20e	17.0	9.5	17.6	420	0.78	19.0	5.8

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

PCA has acquired the freehold of recently refurbished One Derby Square in Liverpool for £13.98m (before costs), reflecting a 6.75% net initial yield. The acquisition is in line with PCA's strategy to focus on city centre locations in university towns and regional cities with a positive supply-demand position. The property is 96% occupied with strong tenants including Pret a Manger, Tesco, Medicash, Reed Specialist Recruitment and Brook Street. PCA sees significant further opportunity for active management to enhance the future capital value. We expect it to utilise its revolving credit facility to bridge the short gap between this acquisition and completion of the residential sale, and although we have not at this stage changed our estimates, set out in our [last note](#), the acquisition represents a faster pace of reinvestment than we had allowed for. If nothing else changes, this should be a slight benefit to FY19/20 earnings, although the lower yield on investment than we had assumed would have a slight negative impact on FY21e. With a dividend yield of c 6% and a more than c 20% discount to EPRA NAV, the PCA valuation does not appear to be factoring in the strong reversionary potential embedded in the current portfolio and asset management opportunities, including the significant Hudson Quarter development in York, none of which is included in our base case forecasts.

## Property acquisition

### Real estate

4 January 2019

**Price** 328p  
**Market cap** £150m

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

### Share price performance



### 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.

### Analysts

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