



# Results analysis: Picton Property Income

PCTN returned to profit with a strong six months...

Update

14 November 2024

- Picton Property Income (PCTN) released its half-year results for the six-month period to 30/09/2024, with a return to profit being the main headline. The company generated a profit of £11.5 million during the period.
- Profit was driven by capital, income and rental growth, with a like-for-like portfolio valuation increase of 0.8%, contracted rent increases of 1% and estimated rental value (ERV) growth of 1.6%. New lettings and lease renewals secured annual contracted rents of £1.6 million and £3.7 million respectively.
- Earnings growth was strong, with EPRA earnings of £11.2 million, or 2.1p per share, 11.6% higher than in the same period last year. EPRA earnings measure a property investment company's operational performance, calculated after adjusting for a number of factors including property revaluation and property disposals.
- PCTN paid dividends of £10.1 million, or 1.85p per share, an increase of 5.7%. Dividend cover was strong, at 111%. The net asset value (NAV) total return over the period was 2.2% and the shareholder total return was 17.4%.
- PCTN fully repaid its floating rate debt, using proceeds from the disposal of its Angel Gate property. The remaining £210 million of total borrowings are 100% at fixed rates, with a weighted average interest rate of 3.7% and a weighted average debt maturity of seven years. The loan-to-value ratio was 25%, down from 28% in March 2024.
- From a portfolio construction perspective, PCTN continues to reduce its office exposure, which currently stands at 27% but will fall to 25% with the planned disposals of Longcross, Cardiff and Charlotte Terrace, London. Industrials account for 62% and retail and leisure for 11%. Occupancy was 92%, increasing to 94% excluding the two assets held for sale.
- Michael Morris, chief executive of PCTN, said: "We are progressing our portfolio repositioning strategy and are also encouraged by our pipeline of asset management activity. Alongside our investment into our portfolio, this will drive occupancy, income and capital growth."

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## Kepler View

**Picton Property Income's (PCTN)** half-year results were encouraging, as improved earnings saw the portfolio return to profit during the period.

Its strategy of repurposing office assets into alternative use venues continues to bear fruit, with the proceeds of the sale of its Angel Gate property in London being used to repay its revolving credit facility, reducing total borrowings and the LTV. Its long-term loan facilities run until 2031 and 2032, meaning there are no immediate refinancing risks.

One of PCTN's key attractions is its internal management structure, which aligns management with shareholders. NAV performance, income growth and outperformance of the key MSCI index are all key objectives than can influence the team's remuneration, for instance.



The dividend remains a strong suit for PCTN, with cover of 111%, higher than many of its peers. The property portfolio net initial yield of 5.1% may be lower than some other comparable real estate investment trusts (REITs), but its reversionary yield, at 6.9%, could translate into further dividend growth. The reversionary yield is the yield that should be achieved if the passing rent adjusts to the level of ERV.

UK commercial property capital values have started to react positively to both the change in government and, most notably, the two interest rate cuts seen since July. A more stable macro environment and continued falling interest rates present a more constructive outlook for the property market more broadly.

The past few years have been a tricky period for REIT managers to navigate, but PCTN's management certainly hasn't stood still, with notable successes on its change-of-use drive within its office portfolio paying off.

On a discount of c. 27% and with strong income-generating ability, PCTN offers value at an interesting juncture for this asset class.

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