

Picton Property Income

Strong Q325 performance

Picton Property Income (PCTN) has completed on the c £13m sale of an office asset designated for alternative use and announced a £10m share buyback programme. The news follows a strong Q325 performance, with asset management initiatives driving income and capital gains, further highlighting the company's track record of adding value to its portfolio, even in times of market volatility. Q125 NAV per share increased 2.3% to 98.5p, while the accounting total return was 3.2% (and 5.4% for FY25-to-date). DPS was 111% covered. The portfolio offers significant reversionary potential to further drive income and realise value, while gearing is low (LTV of 25%) and all debt long term and fixed rate.

Year end	Net rental income (£m)	EPRA earnings (£m)	EPRA EPS (p)	DPS (p)	NAV/share (p)	Yield (%)	P/NAV (x)
3/23	36.3	21.3	3.9	3.50	100.4	5.5	0.63
3/24	37.9	21.7	4.0	3.55	96.1	5.6	0.66
3/25e	37.6	22.9	4.2	3.70	96.6	5.8	0.66
3/26e	39.5	24.3	4.4	3.84	97.8	6.0	0.65

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

Further accretive capital deployment

The completed sale of Charlotte Terrace in London W14 follows last April's sale of Angel Gate in Islington for c £30m. A third disposal (Longcross in Cardiff) is expected to complete before the end of FY25, bringing total gross disposal proceeds to c £51m, 5% ahead of the end-FY24 valuation. These sales are part of Picton's strategy of repositioning selected office assets for alternative use, creating additional value and reducing sector exposure. They significantly enhance earnings and provide opportunities for accretive capital deployment. The measures taken include full repayment of the outstanding floating rate debt, significant investment into the portfolio and now share repurchases. Reflecting the discount to NAV, the board currently views buybacks as the most attractive use of available capital.

Attractive exposure to market recovery potential

In our [December update](#), we explained why we believe that Picton's strong long-term record of performance and unconstrained, opportunistic and primarily asset-driven approach to portfolio construction make it an attractive way for investors to access a recovery in the commercial property market. The Q325 update, reviewed below, reinforces this view. Picton's portfolio has a long-term track record of upper-quartile outperformance versus the MSCI UK Quarterly Property Index since its launch in 2005. The 10-year NAV total return is 9.2% pa. Picton's portfolio is strongly weighted to the industrial and retail warehouse sectors, both supported by strong fundamentals, yet remains well-positioned to adapt to evolving market conditions.

Valuation: Property outperformance at a discount

FY25e DPS of 3.7p represents an attractive yield of c 6%, with a good level of cover and earnings retention available for reinvestment into the portfolio. This enhances its quality and supports rental growth, capital values and total return.

Q325 update and share buyback

Real estate

31 January 2025

Price **63.60p**

Market cap **£338m**

Net cash/(debt) as at 31 December 2024 £(187.5)m

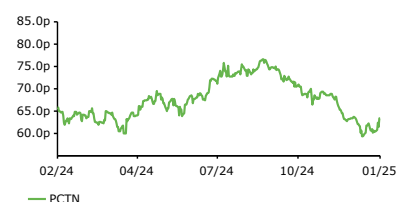
Shares in issue 547.6m

Code PCTN

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.0) (11.5) (2.3)

52-week high/low 76.3p 58.0p

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 events

FY25 results 22 May

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Picton Property Income is a research client of Edison Investment Research Limited

Additional details on recent company updates

Picton's Q3 net tangible assets (NTA) growth reflected like-for-like portfolio growth of 2.2% (1.6% excluding capex) across all sectors but especially retail warehouses. This was driven by asset management activity, the ability to capture rental growth and a 0.1% tightening in the equivalent yield. Occupancy was unchanged at 92% but will increase to 95% on a pro forma basis with the disposals of Charlotte Terrace and Longcross.

New lettings added £1.3m to annual passing rent, averaging 6% above the H125 estimated rental value (ERV). Lease renewals were at an average of 44% ahead of previous passing rent and 7% ahead of the H1 ERV. Demonstrating Picton's active, occupier-focused approach, three active management transactions were completed, upsizing existing occupiers, removing break clauses and restructuring leases to secure £1.5m of income (15% ahead of September 2024 ERV).

The 1.6% like-for-like portfolio value uplift (adjusted for capex) compares favourably with the 1.2% capital return indicated by MSCI monthly data, and points to a continuation of Picton's strong long-term track record of property outperformance. Capex of £4.3m mainly related to upgrading several office assets that remain core to the portfolio.

The Q325 NAV is above our FY25 forecast, indicating upside potential. We will nonetheless wait to see the full-year results (due in May) and whether the more recent debt market volatility has dented the increasing confidence that has been evident in the commercial property market in recent months.

The company also has announced that Francis Salway will become chair of the board and chair of the nominations committee, succeeding Lena Wilson, whose decision to step down from the board at the end of January 2025 had been previously announced. He has extensive experience in the property sector, including as chief executive of Land Securities between 2004 and 2012. He is currently a non-executive director of Watkin Jones, the UK's leading residential-for-rent developer, and a non-executive director of Cadogan Group, which owns and manages the Cadogan Estate in Chelsea.

Exhibit 1: NAV total return

	Q125	Q225	Q325	Nine months
Opening NAV/EPRA NTA (£m)	524.5	524.1	524.8	524.5
Movement in property values	(0.1)	0.4	11.1	11.4
Net income after tax	5.1	6.1	5.6	16.8
Dividends paid	(5.1)	(5.0)	(5.0)	(15.1)
Other	(0.3)	(0.8)	0.3	(0.8)
Closing NAV/EPRA NTA (£m)	524.1	524.8	536.8	536.8
NAV/EPRA NTA per share (p)	96.0	96.3	98.5	98.5
DPS paid (p)	0.925	0.925	0.925	2.775
NAV/EPRA NTA total return	0.9%	1.3%	3.2%	5.4%

Source: Picton Property Income data, Edison Investment Research

Exhibit 2: Q325 portfolio summary

	Portfolio allocation	Q325 like for like valuation change
Industrial	61.8%	1.9%
South East	44.0%	
Rest of UK	17.8%	
Office	26.9%	2.3%
London City & West End	7.4%	
Inner & Outer London		
South East	7.7%	
Rest of UK	8.8%	
Alternative use assets	3.0%	
Retail & Leisure	11.3%	3.6%
Retail Warehouse	7.3%	
High Street - Rest of UK	2.3%	
Leisure	1.7%	
Total	100.0%	2.2%

Source: Picton Property Income

Exhibit 3: Financial summary

Year end 31 March (£m)	2021	2022	2023	2024e	2025e	2026e
PROFIT & LOSS						
Rental income	36.6	40.1	43.0	43.9	44.2	44.6
Other income	1.5	0.2	0.4	1.2	0.4	0.5
Service charge income	5.3	6.2	8.4	9.6	9.8	9.9
Revenue from properties	43.3	46.5	51.8	54.7	54.3	55.0
Property operating costs	(2.4)	(2.5)	(3.5)	(3.1)	(3.1)	(3.0)
Property void costs	(2.2)	(2.4)	(3.6)	(4.1)	(3.9)	(2.6)
Recoverable service charge costs	(5.3)	(6.2)	(8.4)	(9.6)	(9.8)	(9.9)
Property expenses	(9.9)	(11.1)	(15.6)	(16.8)	(16.7)	(15.5)
Net property income	33.5	35.4	36.3	37.9	37.6	39.5
Administrative expenses	(5.4)	(5.8)	(6.0)	(7.2)	(7.2)	(7.6)
Operating Profit before revaluations	28.1	29.7	30.3	30.7	30.4	31.9
Revaluation of investment properties	12.9	129.8	(110.8)	(26.5)	0.3	2.3
Profit on disposals	0.9	0.0	0.0	0.0	0.6	0.0
Operating Profit	41.8	159.5	(80.5)	4.1	31.3	34.3
Net finance expense	(8.0)	(8.5)	(9.0)	(8.9)	(7.5)	(7.7)
Debt repayment fee		(4)				
Profit Before Tax	33.8	147.0	(89.5)	(4.8)	23.8	26.6
Taxation	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax (IFRS)	33.8	147.0	(89.5)	(4.8)	23.8	26.6
Adjust for:						
Investment property valuation movement	(12.9)	(129.8)	110.8	26.5	(0.3)	(2.3)
Profit on disposal of investment properties	(0.9)	(0.0)	0.0	0.0	(0.6)	0.0
Exceptional income /expenses	0.0	4.0	0.0	0.0	0.0	0.0
EPRA earnings	20.1	21.2	21.3	21.7	22.9	24.3
Fully diluted average Number of Shares Outstanding (m)	546.8	547.3	546.9	547.1	546.1	547.6
EPS (p)	6.2	26.9	(16.4)	(0.9)	4.4	4.9
EPRA EPS (p)	3.7	3.9	3.9	4.0	4.2	4.4
Dividend declared per share (p)	2.9	3.5	3.5	3.6	3.7	3.8
Dividends paid per share (p)	2.8	3.4	3.5	3.5	3.7	3.8
Dividend cover (x) EPRA EPS/DPS declared	1.26	1.13	1.12	1.12	1.14	1.16
Dividend cover (x) - paid dividends	1.34	1.15	1.12	1.14	1.17	1.20
Total return	6.6%	27.9%	-13.7%	-0.9%	4.4%	5.2%
EPRA cost ratio (excluding direct vacancy costs)	20.8%	19.9%	21.3%	23.0%	22.8%	23.2%
BALANCE SHEET						
Non-current assets	669.5	834.4	749.8	691.8	686.5	695.7
Investment properties	665.4	830.0	746.3	688.3	683.0	692.2
Other non-current assets	4.1	4.4	3.4	3.5	3.5	3.5
Current assets	42.9	61.4	42.8	82.1	72.8	70.5
Debtors	19.6	22.9	22.7	62.3	27.5	27.5
Cash	23.4	38.5	20.1	19.8	45.2	42.9
Current Liabilities	(19.9)	(20.3)	(20.7)	(21.9)	(21.3)	(21.3)
Creditors/Deferred income	(18.9)	(19.3)	(19.6)	(20.7)	(20.0)	(20.0)
Current borrowings	(0.9)	(1.1)	(1.1)	(1.2)	(1.3)	(1.3)
Non-Current Liabilities	(164.4)	(218.4)	(224.2)	(227.5)	(210.6)	(210.9)
Non-current borrowings	(162.7)	(215.8)	(221.6)	(224.9)	(208.0)	(208.3)
Other non-current liabilities	(1.7)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Net assets	528.2	657.1	547.6	524.5	527.4	534.0
NAV per share (p)	97	120	100	96	97	98
EPRA NTA per share (p)	97	120	100	96	97	98
CASH FLOW						
Operating cash flow	26.0	28.1	30.9	29.2	29.4	32.7
Net Interest	(7.5)	(8.1)	(7.9)	(9.0)	(7.0)	(7.3)
Tax	0.1	0.0	0.0	0.0	0.0	0.0
Net cash from investing activities	(1.3)	(33.8)	(26.8)	(4.5)	41.9	(6.9)
Ordinary dividends paid	(15.0)	(18.4)	(19.1)	(19.1)	(20.2)	(20.8)
Debt drawn/(repaid)	(1.8)	52.2	5.4	3.1	(17.1)	0.0
Net proceeds from shares issued/repurchased	(0.6)	(0.7)	(1.1)	0.0	(1.5)	0.0
Other cash flow from financing activities		(4.0)				
Net cash from financing activities	(17.5)	29.0	(14.8)	(16.0)	(38.8)	(20.8)
Change in cash	(0.2)	15.2	(18.5)	(0.3)	25.5	(2.3)
Opening cash	23.6	23.4	38.5	20.1	19.8	45.2
Closing cash	23.4	38.5	20.1	19.8	45.2	42.9
Debt as per balance sheet	(163.7)	(216.8)	(222.8)	(226.1)	(209.3)	(209.6)
Un-amortised loan arrangement fees	(2.6)	(2.0)	(1.7)	(1.4)	(1.1)	(0.8)
Closing net (debt)/cash	(142.8)	(180.3)	(204.4)	(207.8)	(165.1)	(167.5)
Net LTV	20.9%	21.2%	26.7%	27.9%	23.4%	23.5%

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

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