

# Town Centre Securities

FY18 earnings in line and DPS increased

FY18 results and update

Real estate

12 October 2018

**Price** **252p**

**Market cap** **£134m**

Net debt (£m) at 30 June 2018 (excluding finance leases) 192.6

Net LTV at 30 June 2018 47.5

Shares in issue 53.2m

Free float 48%

Code TOWN

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (3.1) (10.6) (18.7)

Rel (local) 1.2 (3.0) (12.7)

52-week high/low 315p 252p

## Business description

Town Centre Securities is a UK real estate investment trust operating across the UK, but with a regional focus, primarily in Leeds, Manchester, Scotland and (mainly suburban) London. It also has a car parking operation (CitiPark). The investment portfolio is intensively managed for income and capital growth.

## Next events

AGM 20 November 2018

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**Town Centre Securities is a research client of Edison Investment Research Limited**

Town Centre Securities (TCS) continued to reposition its portfolio in FY18, seeking to ensure a resilient income stream and unlock future growth potential. Underlying earnings were robust, supported by like-for-like rental growth, a good level of occupancy and further growth in car parking revenues and profits. Refinancing has provided significant additional financial flexibility as TCS continues to invest for future growth, and the DPS was increased 2.2% to 11.75p, representing a yield of 4.7%, while the shares trade at a significant discount to NAV per share of more than 30%.

| Year end | Net revenue (£m) | EPRA earnings* (£m) | EPRA EPS* (p) | EPRA NAV/ share* (p) | DPS (p) | P/NAV (x) | Yield (%) |
|----------|------------------|---------------------|---------------|----------------------|---------|-----------|-----------|
| 06/17    | 19.4             | 7.0                 | 13.2          | 359                  | 11.5    | 0.70      | 4.6       |
| 06/18    | 19.3             | 6.9                 | 13.0          | 384                  | 11.8    | 0.66      | 4.7       |
| 06/19e   | 20.5             | 6.8                 | 12.9          | 392                  | 11.8    | 0.64      | 4.7       |
| 06/20e   | 20.9             | 7.2                 | 13.5          | 399                  | 12.1    | 0.63      | 4.8       |
| 06/21e   | 21.2             | 7.6                 | 14.3          | 418                  | 12.5    | 0.60      | 4.9       |

Note: \*EPRA EPS is adjusted to exclude revaluation movements, disposal gains/(losses) on investment property and exceptional items.

## Underlying progress supports income

FY18 EPRA earnings and NAV were in line with our expectations. The DPS increase positively surprised us. The timing of asset sales weighed on income in FY18, but was offset by positive underlying developments in passing rent (+4.1% like-for-like) with a good level of occupancy maintained, and growth in CitiPark. EPRA EPS was 13.0p (FY17: 13.2p) and NAV per share increased by 6.8% to 384p. With a focus on convenience and discount formats in its 'mall' assets, TCS saw no material impact from high street failures. Progress with developments continues, while refinancing of bank debt and July's innovative Merrion House refinancing provide added certainty and flexibility to funding for future growth. LTV fell to 47.5% (FY17: 49.3%) and a pro forma 45.3% in July. The main changes to our estimates reflect recent transactions and the evolution of the portfolio.

## Repositioning for income and growth

Capital recycling is key to strategy and during the past two years TCS has disposed of 8% of the portfolio. This has freed capital from mature assets for strategic repurchases and investment in the development pipeline, while broadly maintaining profitability and increasing capital values. With a pipeline of development projects valued by management at almost £600m, TCS has significant potential to further enhance earnings and NAV. Management continues to consider how quickly to proceed and how best to fund these, most likely to involve ongoing capital recycling and potential access to new capital resources.

## Valuation: Strong dividend track record

TCS yields 4.7% and has a 58-year track record of increasing or maintaining DPS while investing to grow. FY18 NAV total return was 10.0%, similar to the five-year annual average (10.4%). Meanwhile, the shares trade at a significant discount to FY18 EPRA NAV of more than 30%.

## Active management with a regional focus

TCS is a UK real estate investment trust (REIT) operating across the UK with a regional focus, primarily in Leeds and Manchester, where management is able to exploit its strong and detailed knowledge of the local markets, Scotland and (mainly suburban) London. The company is a family-run business with strong income focus and a 58-year record of increased or maintained DPS. It owns a mixed-use portfolio, valued at c £403.5m as at 30 June 2018, including key development sites in Leeds and Manchester. It also has a car parking operation (CitiPark), which provides a growing and complementary revenue and earnings stream, while monetising what would in some cases be empty, non-income producing development assets. Intensive asset management and active capital recycling are used to drive income growth and capital returns, and the company has a substantial pipeline of continuing development opportunities. For an in-depth overview of TCS, please see our April 2018 [initiation note](#).

## FY18 results summary

The underlying FY18 results (EPRA earnings and NAV) were very much in line with our expectations and those of the market, as flagged in the company's trading update in mid-July. The increase in the full-year dividend per share to 11.75p was a positive surprise for us and reflects management's confidence about the development of its portfolio and the company's future prospects. The year saw continued progress in reshaping the portfolio through capital recycling and new developments coming on stream, targeted at ensuring a resilient income stream while unlocking growth for the future. Retail and leisure exposure has now reduced to 55% compared with 70% two years ago and 80% 10 years ago. Strong property returns contributed to a 10.0% NAV total return during the year, and the group completed a comprehensive refinancing of its bank debt. The loan to value ratio fell to 47.5% (FY17: 49.3%) and following the innovative refinancing of Merrion House had fallen further in July, to a pro forma 45.3%. The Merrion House refinancing saw TCS receive £26.4m in cash in July, providing additional resources to selectively fund the development pipeline.

| <b>Exhibit 1: Summary of results</b> |             |             |                 |              |                               |  |
|--------------------------------------|-------------|-------------|-----------------|--------------|-------------------------------|--|
| <b>£m unless stated otherwise</b>    | <b>FY18</b> | <b>FY17</b> | <b>% change</b> | <b>FY18e</b> | <b>Actual versus forecast</b> |  |
| <b>Gross revenue</b>                 | <b>30.2</b> | <b>27.5</b> | <b>9.6</b>      | <b>30.7</b>  | <b>-1.7%</b>                  |  |
| Property expenses                    | (10.9)      | (8.1)       | 33.7            | (11.0)       | -1.0%                         |  |
| <b>Net revenue</b>                   | <b>19.3</b> | <b>19.4</b> | <b>-0.6</b>     | <b>19.7</b>  | <b>-2.0%</b>                  |  |
| Other income                         | 0.9         | 0.7         | 25.6            | 0.6          | 37.2%                         |  |
| JV operating profit                  | 1.2         | 0.9         | 37.3            | 1.0          | 14.9%                         |  |
| Administrative expenses              | (6.6)       | (6.3)       | 4.4             | (6.6)        | -0.7%                         |  |
| <b>EPRA operating earnings</b>       | <b>14.8</b> | <b>14.7</b> | <b>0.8</b>      | <b>14.8</b>  | <b>0.3%</b>                   |  |
| Finance costs                        | (7.9)       | (7.6)       | 3.2             | (7.8)        | 1.1%                          |  |
| <b>EPRA earnings</b>                 | <b>6.9</b>  | <b>7.0</b>  | <b>-1.9</b>     | <b>6.9</b>   | <b>-0.6%</b>                  |  |
| Net result from property portfolio   | 11.5        | (0.3)       |                 | 13.8         |                               |  |
| <b>IFRS PBT</b>                      | <b>18.4</b> | <b>6.7</b>  | <b>173.2</b>    | <b>20.7</b>  | <b>-11.3%</b>                 |  |
| EPRA EPS (p)                         | 13.0        | 13.2        | -1.9            | 13.1         | -0.6%                         |  |
| EPRA NAV per share (p)               | 384         | 359         | 6.8             | 387          | -0.8%                         |  |
| DPS declared (p)                     | 11.75       | 11.50       | 2.2             | 11.50        | 2.2%                          |  |
| LTV                                  | 47.5%       | 49.3%       |                 | 47.7%        |                               |  |

Source: Town Centre Securities

The key financial highlights of the FY18 results were:

- Gross revenue increased by 9.6%, driven by 5.0% growth at CitiPark, and a full year contribution from ibis Styles hotel that opened in April 2017, adding £2.8m. Gross

revenue/rental income in the property rental segment was 4.1% lower due to the timing of asset sales and the tenant vacation at Homebase in Milngavie, despite a 4.1% increase in like-for-like passing rent, or 1.9% excluding the post-completion step-up in rent at Merrion House and vacancy created by the previously reported exit of Homebase at Milngavie. Occupancy remained at a high level of 95% but was lower than the 99% of the prior year. We estimate that Milngavie accounts for c 3% of the occupancy change and the delivery of new ground floor leisure units at Merrion House, currently being marketed, for c 1%.

- Group property expenses, up by a third, include the operating expenses of the ibis Styles hotel, operated under management contract with a structurally higher expense ratio. Underlying property expenses increased by 5.3%, primarily the result of void costs at Milngavie.
- Overall net revenue was at a broadly similar level to the previous year, with 5.6% growth at CitiPark (to £5.0m), a first time contribution from the ibis Styles hotel of £0.5m, and a 5.6% reduction to £13.9m in the property rental segment.

**Exhibit 2: Segmental summary**

| £m   | FY18        |            |            |             | FY17        |            |            |             | Change       |
|--|-------------|------------|------------|-------------|-------------|------------|------------|-------------|--------------|
|  | Property    | CitiPark   | Hotel      | Total       | Property    | CitiPark   | Hotel      | Total       |              |
| Gross revenue  | 15.9        | 11.5       | 2.8        | 30.2        | 16.6        | 11.0       | N/A        | 27.5        | 9.6%         |
| Property expenses  | (2.0)       | (6.5)      | (2.3)      | (10.9)      | (1.9)       | (6.3)      | N/A        | (8.1)       | 33.7%        |
| <b>Net revenue</b>   | <b>13.9</b> | <b>5.0</b> | <b>0.5</b> | <b>19.3</b> | <b>14.7</b> | <b>4.7</b> | <b>N/A</b> | <b>19.4</b> | <b>-0.6%</b> |
| Administrative expenses  | (5.6)       | (0.9)      | 0.0        | (6.6)       | (5.5)       | (0.8)      | N/A        | (6.3)       |              |
| Admin. Expenses as % net revenue                                   | 40.6%       | 19.0%      | N/A        | 34.1%       | 37.2%       | 17.6%      | N/A        | 32.5%       |              |
| Other income   | 0.9         | 0.0        | 0.0        | 0.9         | 0.7         | 0.0        | N/A        | 0.7         |              |
| Share of post-tax profits from joint venture before property gains | 1.2         | 0.0        | 0.0        | 1.2         | 0.9         | 0.0        | N/A        | 0.9         |              |
| <b>Operating profit before property gains</b>                      | <b>10.3</b> | <b>4.0</b> | <b>0.5</b> | <b>14.8</b> | <b>10.8</b> | <b>3.9</b> | <b>N/A</b> | <b>14.7</b> | <b>0.8%</b>  |

Source: Town Centre Securities

- The increase in operating earnings from JVs reflects the completion of the Merrion House development in February 2018, triggering a step-up in the TCS share of the rental income to the 50% owned JV to £1.7m pa from £0.7m pa.
- With no material change in borrowings and interest cost, EPRA earnings were £6.9m (FY17: 7.0m) and on an unchanged share count, EPRA EPS was 13.0p (FY17: 13.2p).
- The final dividend was increased to 8.50p (FY17: 8.25p), bringing the total DPS declared in the year to 11.75p (FY17: 11.5p), 1.11x covered by EPRA earnings.
- IFRS earnings further benefitted from portfolio gains of c £11.5m, comprising a net valuation movement of wholly owned properties of c £5.9m, the TCS share of the net valuation movement on JV properties of c £2.6m, profits on disposal of investment properties of c £1.7m, and a reversal of impairment on car parking assets of £1.3m. Overall portfolio valuations increased by 3.2% on a like for like basis, focused on development assets. Total property return of 9.4% (FY17: 6.0%) compared with the MSCI (IPD) All Property return of 9.3% (FY17: 5.5%).
- NAV per share increased by 6.8% to 384p, and including dividends paid during the year the NAV total return was 10.0%.

## Operational and portfolio update

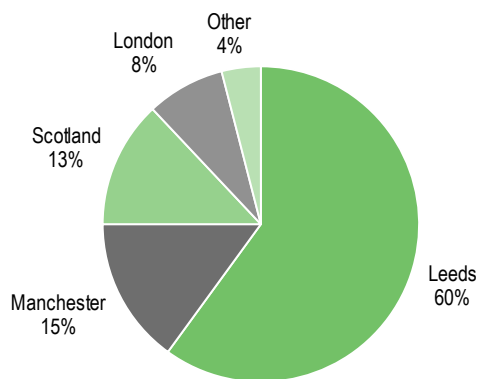
TCS has a diverse, mixed-use portfolio with a 30 June 2018 value, including investment properties, developments, joint ventures, and car parks, of £403.5m (FY17: £381.1m). The investment properties were valued at £331.3m, reflecting a net initial yield of 5.7%, with a passing rent of £20.0m, and 95% occupancy. The full occupancy estimated rental value (ERV) was £22.6m. Including the car parking assets and car parking income on development assets, the end-year passing rent increases to £23.4m.

**Exhibit 3: Portfolio summary**

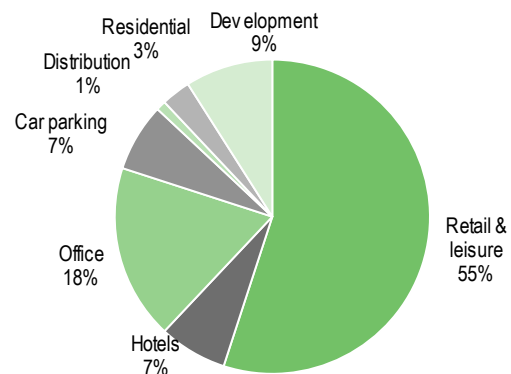
|   | Passing rent (£m) | ERV (£m)    | ERV (%)    | Value (£m)   | Value (%)  | Initial yield | Reversionary yield |
|---|-------------------|-------------|------------|--------------|------------|---------------|--------------------|
| Retail & Leisure                            | 3.6               | 4.1         | 16         | 67.6         | 17         | 5.1%          | 5.8%               |
| Merrion Centre (exc office)                 | 7.4               | 7.9         | 31         | 97.7         | 25         | 7.1%          | 7.6%               |
| Offices                                     | 3.9               | 4.3         | 17         | 70.1         | 18         | 5.3%          | 5.8%               |
| Hotel                                       | 1.2               | 1.6         | 6          | 27.2         | 7          | 4.1%          | 5.7%               |
| Out of town retail                          | 2.9               | 3.6         | 14         | 52.1         | 13         | 5.3%          | 6.6%               |
| Distribution                                | 0.4               | 0.4         | 2          | 5.8          | 1          | 6.4%          | 6.3%               |
| Residential                                 | 0.6               | 0.6         | 2          | 10.9         | 3          | 5.2%          | 5.4%               |
| <b>Total standing investment properties</b> | <b>20.0</b>       | <b>22.6</b> | <b>87</b>  | <b>331.3</b> | <b>84</b>  | <b>5.7%</b>   | <b>6.4%</b>        |
| Development property (car park income)      | 2.0               | 2.0         | 8          | 36.7         | 9          |               |                    |
| Car parks                                   | 1.4               | 1.4         | 5          | 26.0         | 7          |               |                    |
| <b>Total portfolio</b>                      | <b>23.4</b>       | <b>26.0</b> | <b>100</b> | <b>394.0</b> | <b>100</b> |               |                    |

Source: Town Centre Securities. Data as at 30 June 2018. Note: includes Ducie House and sale of Princess Street but excludes post period-end acquisitions of The Cube, Chiswick High Road, and Gordon Street.

Retail and leisure remains the single largest sector weight in the portfolio but has been actively reduced to 55% (from 70% two years ago) in line with the strategy of repositioning the portfolio for future income and growth. Geographically, Leeds and Manchester combined represent 75% of the portfolio by value and remain core to that strategy.

**Exhibit 4: Portfolio by location**


Source: Town Centre Securities. Note: Split by value as at 30 June 2018.

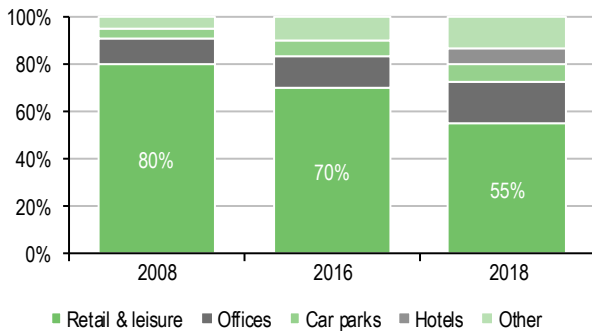
**Exhibit 5: Portfolio by sector**


Source: Town Centre Securities. Note: Split by value as at 30 June 2018.

## Portfolio repositioning

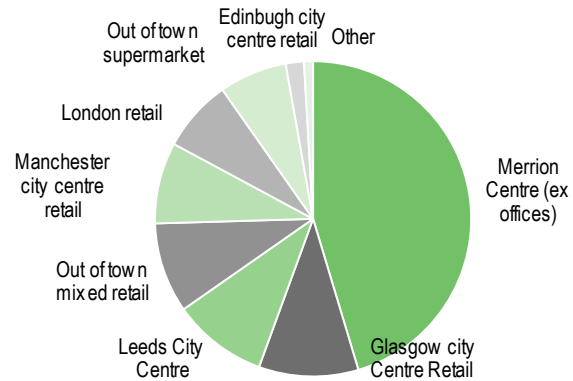
The significant, and ongoing, repositioning of the portfolio can be clearly seen in Exhibit 6, and this has been driven by capital recycling as well as the group's development programme (e.g. the recently completed ibis Styles and Premier Inn hotels in Leeds, and the Merrion House redevelopment). Since the beginning of FY17, TCS has disposed of an aggregate £33.2m of properties with acquisitions amounting to £29.0m. Within this, net divestment from retail and leisure assets has been a little more than £24m.

**Exhibit 6: Increasingly diversified portfolio**



Source: Town Centre Securities. Split by value

**Exhibit 7: Spread of retail & leisure assets**



Source: Town Centre Securities. Split by value

TCS is not exiting retail, and while it has reduced the overall exposure it remains committed to investing the appropriate formats in the right locations. Of the retail exposure retained by TCS, a little more than 80% (of the 55%) represents the Merrion Centre. The Merrion Centre mostly comprises convenience and discount retailing, well suited to its location in the heart of the Leeds student quarter, and this has provided protection against much of the disruption being seen in the high street. Occupancy levels remain high (97%), and footfall and rental income remain strong, with like-for-like rents up 2.0% (increasing to 13.4% including Merrion House office development completion).

The retail tenant base is diversified (the top 10 tenants represent 29% of property income, almost half of which is represented by Waitrose and Morrisons, along with many other good-quality covenants. Rents are mostly collected a quarter in advance and across the portfolio 97% of collections typically occur within four days of the quarter start.

## Leeds and Manchester are core to strategy

Well placed in the centre of Leeds, the Merrion Center, which remains the group's largest single asset, has been transformed over the past 10 years from a shopping centre to truly mixed-use destination. Delivery of the Merrion House office development (February 2018) and the ibis Styles hotel with restaurant (April 2017) have continued the process, with reliance on traditional 'mall' retail falling to less than 25%. As noted above, the problems in the high street have had no material impact on the Merrion Centre, and although Poundworld, now in administration, was a tenant, the store is one of a small number that have been sold to Iceland, with the lease being assigned with no change in terms. TCS is developing plans that would potentially see the building of a new office tower above part of the centre, providing further diversification.

Since year-end, TCS has completed the acquisition of The Cube, a high yielding mixed use property situated opposite the Merrion Centre. The £12m purchase price represents an immediate yield of 12.5% on the passing income and the yield is expected to remain above 9.0% after lease expiries in 2019 and 2020. TCS plans future capex of £5m.

The group is also entering a JV with Leeds City Council for development of an aparthotel on George Street alongside Victoria Gate and Leeds City Market, and is developing plans for the Vicar Lane island site where TCS increased its ownership to 100% in June 2017.

In Manchester, TCS has acquired Ducie House for £9m, a 33,000 sqft multi-let office, including a 63-space surface car park, with future development potential. The asset was included in the year-end portfolio, adding gross annual income of £675k to rent roll, with the cash payment appearing in H119 on completion.

Construction of the 91 unit Burlington House residential development, a JV with Highgrove Group, is proceeding on time and to budget. TCS has confirmed that post-completion (scheduled for May 2019) its investment will be held for private rental sector (PRS) use, an area where it is keen to diversify portfolio income. Full planning approval has been received for the 128 unit Eider House residential development that is expected to follow the completion of Burlington House.

Elsewhere, during the FY18 year TCS sold three properties in Scotland for an aggregate £10.1m, ahead of valuation, and since year-end has acquired a mixed residential/retail property in Chiswick High Road in London for £1.6m (net initial yield of 4.6% and a potential reversionary yield of more than 5%), and a retail unit on Gordon Street in Glasgow, let to Mountain Warehouse for £2.4m (5.25% net initial yield).

## Development pipeline

With the addition of the development opportunity at Ducie House (yet to be scoped), the pipeline of development opportunities available to TCS has increased to an estimated gross development value (GDV) of £588m. All of this pipeline is owned by TCS already and much of it is already part of relevant local government approved strategic planning frameworks, or has already been granted detailed planning permission. The main components of the pipeline are represented by the key development assets in Leeds and Manchester:

- Piccadilly Basin, Manchester. Mixed residential, commercial, and car-parking with an aggregate estimated GDV of £300m.
- Whitehall Road, Leeds. Office, car parking and potentially leisure provision with an aggregate estimated GDV of more than £150m.
- Merrion Centre, Leeds. Office and residential towers with an aggregate estimated GDV of more than £90m.
- George Street, Leeds. An apart-hotel that is expected to be developed in a JV with Leeds City Council, with an estimated GDV of £20m (TCS share £10m).

This pipeline, and the capital required to develop it, is very significant in relation to the size of the group and has the potential to be transformational, although little of it is included in our estimates. TCS continues to explore how best to fund these investments, which will most likely involve ongoing capital recycling and potential access to new capital resources, including further JV developments.

## Financials

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As can be seen from Exhibit 2, the underlying performance in FY18 (EPRA EPS and NAV) was very close to our forecasts, while the increase in DPS was a positive surprise. In this section we will focus on the changes in our multi-year forecasts driven by recent portfolio transactions and the evolution of the development pipeline, as well as update on the funding position, including the refinancing of existing facilities and the innovative Merrion House refinancing that was completed in July.

## Continued repositioning of the investment portfolio

A summary of our earnings forecasts for the property rental segment is shown in Exhibit 8. Our assumptions include:

- For the rental income base, we take the disclosed portfolio contracted rent on standing assets of £20.0m at end-FY18 and adjust for the Merrion House car park (reported within CitiPark), the ibis Styles Hotel (reported separately), and Merrion House (reported within JVs). The adjusted rental base for the segment, at end-FY18, is £16.1m.

- We then adjust for the time-weighted impact of the acquisitions of The Cube, Chiswick High Road, and Gordon Street, Glasgow (not included in the end-FY18 rent roll, with an initial uplift to annualised rent of c £1.8m), and for the re-letting of vacant space at Milngavie (c £0.6m annualised).
- Management indicates that as well as creating new sources of income, the acquisition activity will also facilitate future sales of more mature assets. With this in mind, we have included a notional £13m of property disposal in our forecasts, sufficient to maintain our forecast debt requirement within the current facility limit during the forecast period. In terms of value, our notional disposal is similar to the Central Retail Park in Rochdale, which TCS has indicated to be non-core to the group and is being marketed. We have assumed an 8% net initial yield on our notional disposal, with a reduction in annualised rent roll of c £1.1m.
- We assume 1% pa like-for-like rental growth across the forecast period, representing rental growth/general occupancy improvement.
- We allow for a temporary decline in income from The Cube during refurbishment, and for annualised income to settle at c £1.2m post-lease renewals.
- Development activity within the JVs (discussed below) has a positive impact on recurring income over the forecast period, offsetting the accounting costs associated with the Merrion House refinancing, and also contributes development gains.
- The valuation gains on wholly owned properties are driven by the rental growth assumption, with no allowance for possible yield shifts (either up or down). Our previous forecasts included an assumed c £2.0m gain on the redevelopment of the Leeds car park site in 2020 but we now anticipate a later start date and no completion during the period.
- We next turn to an examination of potential development activity, the majority of which we expect to take place within the property investment joint ventures.

**Exhibit 8: Property rental segmental forecast**

| £m   | 2018        | 2019e       | 2020e       | 2021e       |
|--|-------------|-------------|-------------|-------------|
| Net revenue  | 13.9        | 15.0        | 15.1        | 15.6        |
| Administrative expenses                                | (5.6)       | (5.9)       | (6.1)       | (6.2)       |
| Other income   | 0.9         | 0.4         | 0.4         | 0.4         |
| Share of post-tax profits from joint venture           | 1.2         | 1.0         | 1.1         | 1.7         |
| <b>Operating profit before valuation movements</b>     | <b>10.3</b> | <b>10.5</b> | <b>10.5</b> | <b>11.4</b> |
| Valuation movement on investment properties            | 5.9         | 1.9         | 2.9         | 3.0         |
| Profit on disposal of investment property              | 1.7         | 0.0         | 0.0         | 0.0         |
| Valuation movement on properties held in joint venture | 2.6         | 2.0         | 0.0         | 5.9         |
| <b>Operating profit</b>                                | <b>20.5</b> | <b>14.4</b> | <b>13.4</b> | <b>20.3</b> |

Source: TCS and Edison Investment Research

## No significant change to underlying development assumptions

The JV contribution included within the property segment forecast includes Merrion House, the on-site development at Burlington House, and planned developments at George Street and Eider House (although TCS is yet to confirm that this will be a JV). We also expect TCS to proceed with redevelopment of the Leeds car park, but commencing later than we had previously assumed. Our detailed assumptions for these developments are set out in [our initiation note](#) and are little changed.

The main change to our JV forecast is in respect of the innovative refinancing of Merrion House, a 50:50 JV with Leeds City Council (LCC), the tenant. The transaction was discussed in detail in our [July update note](#), but to briefly recap, LCC agreed to advance to the JV vehicle (Merrion House (MH) LLP) all of the base rent that would be due until lease expiry in 2043, discounted at an equivalent rate of 3.5% plus costs. As a result, TCS was able to unlock the value created by the JV development for reinvestment, while maintaining control of a key asset, and received £26.4m in cash in July. MH LLP will continue to recognise the contracted rent with LLC on a quarterly basis,

but this will be partly offset by an interest charge calculated on an effective interest rate basis. We estimate that the 50% TCS share of MH LLP net income will reduce from an annualised c £1.7m to an annualised c £0.8m, effective for nine months in the current year.

Management expects the Burlington House development to complete in May 2019, which is then expected to generate c £1.1m pa of rental income for the JV (TCS share 50%), a yield on cost of c 6.0%. With confirmation that Burlington House will be retained for PRS use, we have adjusted our forecasts for the interest cost in respect of the debt that we expect the JV to retain at completion (c £13.0m, at an assumed 5%, or an LTV of 50%). We expect the TCS share of earnings to be an annualised c £275k from FY20 with a development gain on completion (TCS share) of £2m in FY19.

Construction of the George Street development is expected to start in January 2019 with a scheduled 18-month build time. We have conservatively pushed back completion by 6 months to end-H121. The development is expected to generate £1.2m pa of rental income for the JV, an estimated 6.5% yield on cost. Assuming no debt within the JV, we expect the TCS share of earnings to be an annualised c £600k (FY22 being the first full year), with a development gain on completion (TCS share) of £900k in FY21.

Although no firm decision has been taken by TCS, we continue to assume the Eider House residential scheme will be undertaken as a JV, with a TCS share of 50%, and that it will be for PRS use at completion. Management expects a March 2019 start date with an 18-month build programme. The estimated rental income is £1.6m pa, a return on the £28m build cost of 5.5%. We now assume completion at end-H121 and a first time contribution in H221, six months earlier than previously. We assume that 50% of the build cost will be debt financed (at 5.0%) and including the c £2m land value the estimated £40m value at completion implies a development gain for the JV of c £10m. We expect the TCS share of recurring JV net income after financing costs to be c £450k pa (FY22 the first full year) and its share of the development gain to be £5.0m in FY21.

Exhibit 9 summarises our updated forecasts for the JV capital, income and valuation movements in respect of the developments contained in our forecasts.

| <b>Exhibit 9: Summary of JV forecasts</b>                          |             |             |             |
|--|-------------|-------------|-------------|
| <b>£m</b>  | <b>FY19</b> | <b>FY20</b> | <b>FY21</b> |
| <b>TCS investment in JV in period</b>                              |             |             |             |
| Merrion House  |             |             |             |
| Burlington House   | 0.0         | 0.0         | 0.0         |
| Eider House  | 1.0         | 5.0         | 1.0         |
| George St  | 2.5         | 5.0         | 1.6         |
| <b>Total TCS investment in JV in period</b>                        | <b>3.5</b>  | <b>10.0</b> | <b>2.6</b>  |
| <b>TCS share of recurring earnings before property gains</b>       |             |             |             |
| Merrion House  | 1.0         | 0.8         | 0.8         |
| Burlington House   | 0.0         | 0.3         | 0.3         |
| Eider House  | 0.0         | 0.0         | 0.2         |
| George St  | 0.0         | 0.0         | 0.3         |
| <b>Total TCS share of recurring earnings before property gains</b> | <b>1.0</b>  | <b>1.1</b>  | <b>1.6</b>  |
| <b>TCS share of JV property gains</b>                              |             |             |             |
| Merrion House  | 0.0         | 0.0         | 0.0         |
| Burlington House   | 2.0         | 0.0         | 0.0         |
| Eider House  | 0.0         | 0.0         | 5.0         |
| George St  | 0.0         | 0.0         | 0.9         |
| <b>Total TCS share of JV property gains</b>                        | <b>2.0</b>  | <b>0.0</b>  | <b>5.9</b>  |
| Source: Edison Investment Research                                 |             |             |             |

## Hotel performing well but repositioning restaurant

The ibis Styles hotel, within the Merrion Centre, and operated under management contract, opened in April 2017. Management says that the hotel operations have traded strongly and exceeded its expectations, but that the restaurant incorporated within the scheme has lagged and is in the



process of being repositioned. Positively, the success of competing local independent restaurants indicates that there is local demand for the right offering. FY18 income fell slightly short of the £600k target and our forward looking estimates are reduced, especially for FY19 as the restaurant changes take effect.

| <b>Exhibit 10: Forecast for hotel segment</b> |             |              |              |              |
|---|-------------|--------------|--------------|--------------|
| <b>£m</b>                                     | <b>2018</b> | <b>2019e</b> | <b>2020e</b> | <b>2021e</b> |
| Gross revenue                                 | 2.8         | 2.8          | 3.1          | 3.3          |
| Total property expenses                       | (2.3)       | (2.4)        | (2.5)        | (2.6)        |
| <b>Net revenue</b>                            | <b>0.5</b>  | <b>0.5</b>   | <b>0.6</b>   | <b>0.7</b>   |
| Valuation movement on investment properties   | 0.0         | 0.0          | 0.0          | 0.0          |
| <b>Operating profit</b>                       | <b>0.5</b>  | <b>0.5</b>   | <b>0.6</b>   | <b>0.7</b>   |

Source: Edison Investment Research

## Steady growth from car parking operations (CitiPark)

We have made little change to our CitiPark estimates other than to defer redevelopment of the Leeds car park site. We had previously assumed the temporary loss of £500k pa of revenue for 12 months (H219–H120) while the site was partly decommissioned in order to construct a new multi-storey car park, for which we assumed revenue of £600k pa at completion. In our new forecasts, decommissioning is deferred until the beginning of FY21 and we now assume a reduction in income in that year of £560k with completion of the new multi-storey car park, and associated income uplift, now falling outside of the forecast period. Otherwise, we continue to expect further steady underlying organic growth in gross revenue and operating profit before valuation movements, with an underlying improvement in efficiency ratios.

| <b>Exhibit 11: Forecast for CitiPark segment</b> |             |              |              |              |
|--|-------------|--------------|--------------|--------------|
| <b>£m</b>  | <b>2018</b> | <b>2019e</b> | <b>2020e</b> | <b>2021e</b> |
| Gross revenue                                    | 11.5        | 11.8         | 12.2         | 12.2         |
| Total property expenses                          | (6.5)       | (6.8)        | (7.0)        | (7.2)        |
| Net revenue                                      | 5.0         | 5.0          | 5.3          | 5.0          |
| Administrative expenses                          | (0.9)       | (1.0)        | (1.0)        | (1.0)        |
| Operating profit before valuation movements      | 4.0         | 4.1          | 4.3          | 4.0          |
| Reversal of impairment of car parking assets     | 1.3         | 0.0          | 0.0          | 0.0          |
| <b>Operating profit</b>                          | <b>5.3</b>  | <b>4.1</b>   | <b>4.3</b>   | <b>4.0</b>   |

Source: Edison Investment Research

## Merrion House adds significant funding flexibility

End-FY18 financial liabilities were £198.1m, comprising £105.9m of 5.275% fixed rate debentures due 2031, secured bank borrowings of £87.8m, and £4.5m of finance lease liabilities. Adjusting for cash balances, the net debt position was £192.6m (FY17: £188.8m) and the LTV was 47.5% (FY17: 49.3%).

The three bank debt facilities, c £103m in aggregate, were all recently extended or renewed with no material impact on the cost of borrowing but with improved and more flexible terms, providing TCS with certainty over its debt funding for the next three to five years. The weighted average maturity of the debt was 8.6 years at end-FY18 compared with 8.2 years 12 months previously. The weighted average cost of debt was 3.9% at end-FY18.

The end-FY18 LTV ratio of 47.5% was distorted by the acquisition of Ducie House and Sale of Princes St straddling the year end, and is impacted by the subsequent refinancing of Merrion House. Management indicates that post the Merrion House financing in July, the pro forma LTV drops to 45.3%.

The £26.4m net inflow from the Merrion House refinancing has a significant impact on the TCS funding position as summarised in Exhibit 10. Our forecasts include £47.4m of investment in wholly owned assets over the next three years, higher than previously forecast as a result of the recent

transactions that have been announced. This includes £3m pa of refurbishment capex and £6m development spending on the Leeds car park in FY21). We also forecast £16.1m investment in the JVs (TCS share), partly offset by proceeds from disposal of £16.1m. The FY19 movements include the £9.5m payment for Ducie House, and £3.3m proceeds from the sale of Princes St, although the end-FY19 property portfolio is adjusted for both transactions. The Merrion House refinancing proceeds are shown as other cash flow from investing.

**Exhibit 12: Summary of cash flow and borrowing requirement**

| £m  | 2019e       | 2020e         | 2021e         | 2019-21e      |
|---|-------------|---------------|---------------|---------------|
| Operating cash flow                             | 8.3         | 7.3           | 7.0           | 22.6          |
| Direct portfolio investment                     | (29.4)      | (6.0)         | (12.0)        | (47.4)        |
| Net investment in JV                            | (3.5)       | (10.0)        | (2.6)         | (16.1)        |
| Proceeds from disposal of investment property   | 16.1        | 0.0           | 0.0           | 16.1          |
| Other cash flow from investing activity         | 26.5        | 0.2           | 0.7           | 27.3          |
| Dividends                                       | (6.2)       | (6.3)         | (6.5)         | (19.0)        |
| <b>Change in cash before borrowing movement</b> | <b>11.7</b> | <b>(14.9)</b> | <b>(13.4)</b> | <b>(16.6)</b> |

Source: Edison Investment Research

After dividend payments, our forecasts point to a net cumulative funding requirement of £16.6m over the next three years. Our model assumes £15.0m of additional borrowing and a small reduction in the cash balance. This additional borrowing takes forecast financial liabilities to £213.1m by end FY21, utilising existing debt facilities, and the LTV to 48.0%.

## Timing effects substantially drive forecast changes

Bringing all of the above together, Exhibit 13 shows a summary of the changes in our group forecasts.

**Exhibit 13: Summary of changes in group forecasts**

|        | Net revenue (£m) |      |          | EPRA EPS (p) |      |          | DPS declared (p) |      |          | EPRA NAV/share (p) |     |          | LTV (%) |      |          |
|--------|------------------|------|----------|--------------|------|----------|------------------|------|----------|--------------------|-----|----------|---------|------|----------|
|        | New              | Old  | % change | New          | Old  | % change | New              | Old  | % change | New                | Old | % change | New     | Old  | % change |
| 06/19e | 20.5             | 20.0 | 2.1      | 12.9         | 13.7 | (5.9)    | 11.8             | 12.2 | (3.7)    | 392                | 399 | (1.7)    | 45.9    | 48.1 | (4.4)    |
| 06/20e | 20.9             | 20.6 | 1.6      | 13.5         | 14.9 | (9.5)    | 12.1             | 12.7 | (4.7)    | 399                | 412 | (3.1)    | 47.4    | 49.6 | (4.4)    |
| 06/21e | 21.2             | 21.2 | (0.2)    | 14.3         | 16.4 | (12.6)   | 12.5             | 13.7 | (9.1)    | 418                | 428 | (2.4)    | 48.0    | 48.7 | (1.4)    |

Source: Edison Investment Research

The changes to the assumed timing of developments discussed above have an impact during the forecast period but substantially work themselves through by FY21 with the exception of the temporary loss of c £0.6m net revenue and EPRA earnings (c 1.1p per share, roughly half the forecast reduction) in relation to the Leeds car park redevelopment. The balance of the reduction in FY21e EPRA earnings is explained by the higher financing costs within the JVs, only partly offset by increased net rental income from the larger wholly owned portfolio. It is also worth noting that Eider House and George Street only contribute to FY21 for six months post the assumed completion dates and would add an additional £0.75m of EPRA earnings (c 1.4p per share) on a full-year basis.

## Valuation

TCS has a strong focus on growing portfolio income to support its long-term progressive dividend policy, although its active asset management strategy, aimed at enhancing long-term total return, means it is not focused on yield maximisation over the shorter term. In this context we think it informative to examine NAV total return performance (the change in NAV per share plus dividends paid). The aggregate five year NAV total return is now 64.0%, or a compound annual total return of 10.0%.

**Exhibit 14: Five-year NAV total return**

|                           | FY14  | FY15  | FY16  | FY17  | FY18  | 2014–18 |
|---------------------------|-------|-------|-------|-------|-------|---------|
| Opening NAV per share (p) | 267   | 308   | 344   | 357   | 359   | 267     |
| Closing NAV per share (p) | 308   | 344   | 357   | 359   | 384   | 384     |
| Dividend per share (p)    | 10.44 | 10.44 | 10.44 | 11.15 | 11.5  | 53.97   |
| NAV total return          | 19.4% | 15.0% | 6.9%  | 3.8%  | 10.0% | 64.0%   |
| Compound annual return    |       |       |       |       |       | 10.4%   |

Source: Company data, Edison Investment Research

The investment in portfolio repositioning and development required to generate these returns is a limiting factor on immediate dividend distributions, but TCS has a long and consistent track record of dividend payments, increasing or at least maintaining DPS in each of the past 58 years, including during the last downturn in 2008. The FY18 increase to 11.75p (FY17: 11.5p) represents a dividend yield of 4.7%, with the dividend 1.11x covered by earnings, and is above the c 4.4% yield for the UK property index and the c 4.3% yield for the FTSE All Share Index. The TCS share price discount to NAV of more than 30% is well above the median for the broad UK sector (c 10%).

The broad UK property sector encompasses a wide range of companies with differing strategies and includes a number of investors in specialist asset types. In Exhibit 15 we show a summary valuation comparison of TCS with what we consider to be a closer group of peers, including companies focused on regional property and those with retail exposure.

**Exhibit 15: Peer comparison table**

|                      | Price (p) | Market cap. (£m) | P/NAV (x)   | Yield (%)  | Share price performance |            |            |               |
|----------------------|-----------|------------------|-------------|------------|-------------------------|------------|------------|---------------|
|                      |           |                  |             |            | 1 month                 | 3 months   | 12 months  | From 12m high |
| Capital & Regional   | 40        | 290              | 0.62        | 9.4        | -8%                     | -16%       | -25%       | -30%          |
| Circle Property      | 199       | 56               | 0.87        | 3.2        | -1%                     | -13%       | 28%        | -22%          |
| Custodian REIT       | 114       | 449              | 1.06        | 5.7        | -6%                     | -7%        | -2%        | -7%           |
| Hammerson            | 434       | 3380             | 0.56        | 6.0        | -5%                     | -18%       | -18%       | -24%          |
| Helical              | 319       | 381              | 0.68        | 3.1        | -6%                     | -7%        | 5%         | -21%          |
| McKay Securities     | 251       | 236              | 0.78        | 4.1        | -10%                    | -5%        | 18%        | -13%          |
| Mucklow              | 536       | 339              | 0.96        | 4.4        | -3%                     | -4%        | 3%         | -7%           |
| NewRiver REIT        | 258       | 783              | 0.88        | 8.4        | 4%                      | -3%        | -24%       | -26%          |
| Palace Capital       | 292       | 134              | 0.71        | 6.7        | -9%                     | -17%       | -17%       | -20%          |
| Picton               | 84        | 455              | 0.92        | 4.2        | -7%                     | -9%        | 0%         | -10%          |
| Real Est Inv         | 55        | 102              | 0.78        | 6.6        | -1%                     | 1%         | -9%        | -12%          |
| Regional REIT        | 99        | 370              | 0.87        | 8.1        | 2%                      | 7%         | -4%        | -6%           |
| St Modwen            | 369       | 821              | 0.78        | 1.8        | -5%                     | -7%        | -3%        | -14%          |
| Schroder REIT        | 59        | 306              | 0.85        | 4.2        | -2%                     | -4%        | -3%        | -12%          |
| <b>Median</b>        |           |                  | <b>0.82</b> | <b>5.1</b> | <b>-5%</b>              | <b>-7%</b> | <b>-3%</b> | <b>-14%</b>   |
| Town Centre Sec.     | 252       | 134              | 0.66        | 4.7        | -5%                     | -13%       | -17%       | -21%          |
| UK property index    | 1,668     |                  |             | 4.3        | -5%                     | -8%        | -5%        | -11%          |
| FTSE All-Share Index | 3,849     |                  |             | 4.4        | -4%                     | -8%        | -7%        | -11%          |

Source: Company data, Edison Investment Research, Bloomberg data as at 12 October 2018

As a whole, the peer group yield is higher than for TCS but so too is the P/NAV. Breaking this down, the retail focused stocks (and some other stocks with relatively low dividend cover) tend to have the higher yields and lower P/NAVs. Those stocks most reliant on income returns and less reliant on refurbishment/development to generate returns (eg Picton or Custodian) have above-median P/NAVs. To some extent the relative market valuation of TCS to some degree reflects its portfolio balance (increasingly diversified but still relatively 'overweight' retail and leisure) and strategy (income focused but an active asset manager and re-cycler of capital). However, in terms of P/NAV the TCS valuation appears to more closely resemble that of the pure retail focused stocks despite it having a more diversified revenue stream. A similar picture can be seen in relative share price performance over the past 12 months.

It is difficult to describe the current TCS valuation as anything other than modest, while the share price performance does not appear to be reflecting some of the specific characteristics of TCS or

the progress that has been made in the past 12 months. As discussed throughout this report, we would highlight:

- The consistent track record of dividend payments, which at least in part we attribute to the family-controlled nature of TCS. We estimate that dividend cover of 1.11x compares with c 1x for the broad UK property universe.
- The significant shift in portfolio positioning that should represent a material de-risking of future income.
- The significant reduction in LTV over the past year and through July, combined with increased financial flexibility to fund selected development projects.
- The scale of the opportunity contained in the group's already owned development pipeline, which, subject to funding, has the potential to substantially lift the earnings and net asset position from that modelled. As the company considers how quickly to proceed with developments and how best to fund them, continued capital recycling and JVs will doubtless have a role to play, while additional equity is also an option. The latter may require family shareholders to reassess their position, but could benefit all shareholders if it brings a welcome increase in liquidity to the shares.

**Exhibit 16: Financial summary**

| Year ending 30 June (£000's)  | 2015      | 2016      | 2017      | 2018      | 2019e     | 2020e     | 2021e     |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>INCOME STATEMENT</b>   |           |           |           |           |           |           |           |
| Gross revenue   | 22,714    | 26,265    | 27,540    | 30,178    | 31,687    | 32,388    | 33,056    |
| Total property expenses   | (5,248)   | (7,661)   | (8,148)   | (10,896)  | (11,233)  | (11,477)  | (11,846)  |
| Net revenue   | 17,466    | 18,604    | 19,392    | 19,282    | 20,454    | 20,911    | 21,210    |
| Administrative expenses   | (5,321)   | (5,493)   | (6,295)   | (6,574)   | (6,865)   | (7,022)   | (7,183)   |
| Other income  | 1,468     | 599       | 707       | 888       | 400       | 400       | 400       |
| Valuation movement on investment properties                               | 14,791    | 3,018     | (2,085)   | 5,932     | 1,875     | 2,901     | 2,970     |
| Reversal of impairment of car parking assets                              | 0         | 500       | 1,000     | 1,300     | 0         | 0         | 0         |
| Profit on disposal of investment property                                 | 236       | 1,140     | 303       | 1,677     | 0         | 0         | 0         |
| Share of post tax profits from joint venture                              | 2,621     | 1,400     | 1,342     | 3,757     | 3,000     | 1,050     | 7,475     |
| Operating profit  | 31,261    | 19,768    | 14,364    | 26,262    | 18,864    | 18,240    | 24,872    |
| Net finance costs   | (7,258)   | (7,847)   | (7,639)   | (7,887)   | (8,150)   | (8,180)   | (8,385)   |
| PBT   | 24,003    | 11,921    | 6,725     | 18,375    | 10,714    | 10,060    | 16,487    |
| Tax   | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Net profit  | 24,003    | 11,921    | 6,725     | 18,375    | 10,714    | 10,060    | 16,487    |
| Adjustments to EPRA:  |           |           |           |           |           |           |           |
| Valuation movement on investment properties                               | (14,791)  | (3,018)   | 2,085     | (5,932)   | (1,875)   | (2,901)   | (2,970)   |
| Reversal of impairment of car parking assets                              | (5,013)   | (500)     | (1,000)   | (1,300)   | 0         | 0         | 0         |
| Valuation movement on properties held in joint ventures                   | 0         | (668)     | (471)     | (2,561)   | (2,000)   | 0         | (5,900)   |
| Profit on disposal of investment/development properties                   | (236)     | (1,140)   | (303)     | (1,677)   | 0         | 0         | 0         |
| (Profit)/Loss on disposal of investment properties held in joint ventures | 2,488     | 0         | 0         | 0         | 0         | 0         | 0         |
| Refi costs  |           |           |           |           | 0         | 0         | 0         |
| EPRA earnings   | 6,451     | 6,595     | 7,036     | 6,905     | 6,839     | 7,159     | 7,617     |
| Average number of shares (m)  | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      |
| Basic & fully diluted IFRS EPS (p)  | 45.2      | 22.4      | 12.7      | 34.6      | 20.2      | 18.9      | 31.0      |
| Basic & fully diluted EPRA EPS  | 12.1      | 12.4      | 13.2      | 13.0      | 12.9      | 13.5      | 14.3      |
| DPS declared (p)  | 10.44     | 11.00     | 11.50     | 11.75     | 11.75     | 12.10     | 12.45     |
| <b>BALANCE SHEET</b>  |           |           |           |           |           |           |           |
| Investment properties   | 336,982   | 346,388   | 349,266   | 359,734   | 368,671   | 377,571   | 392,541   |
| Investment in joint ventures  | 19,344    | 25,093    | 27,852    | 39,742    | 18,842    | 28,842    | 37,342    |
| Goodwill  | 4,024     | 4,024     | 4,024     | 4,024     | 4,024     | 4,024     | 4,024     |
| Other non-current assets  | 1,214     | 2,151     | 3,922     | 3,669     | 3,669     | 3,669     | 3,669     |
| Total non-current assets  | 361,564   | 377,656   | 385,064   | 407,169   | 395,206   | 414,106   | 437,576   |
| Investments (listed equities)   | 1,962     | 2,070     | 2,394     | 3,530     | 3,530     | 3,530     | 3,530     |
| Non-current assets held for sale  | 3,450     | 0         | 0         | 0         | 0         | 0         | 0         |
| Trade & other receivables   | 6,871     | 7,388     | 3,311     | 6,288     | 3,525     | 3,625     | 3,640     |
| Cash & equivalents  | 1,515     | 0         | 3,124     | 5,473     | 17,206    | 7,329     | 3,902     |
| Total current assets  | 13,798    | 9,458     | 8,829     | 15,291    | 24,260    | 14,484    | 11,073    |
| Total assets  | 375,362   | 387,114   | 393,893   | 422,460   | 419,466   | 428,590   | 448,649   |
| Trade & other payables  | (11,857)  | (11,496)  | (10,846)  | (20,278)  | (12,817)  | (13,180)  | (13,238)  |
| Financial liabilities   | (38,668)  | (887)     | 0         | 0         | 0         | 0         | 0         |
| Total current liabilities   | (50,525)  | (12,383)  | (10,846)  | (20,278)  | (12,817)  | (13,180)  | (13,238)  |
| Non-current financial liabilities   | (141,959) | (184,874) | (191,969) | (198,057) | (198,057) | (203,057) | (213,057) |
| Total liabilities   | (192,484) | (197,257) | (202,815) | (218,335) | (210,874) | (216,237) | (226,295) |
| Net assets  | 182,878   | 189,857   | 191,078   | 204,125   | 208,592   | 212,353   | 222,354   |
| Period end shares in issue (m)  | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      | 53.2      |
| NAV per share (p)   | 344       | 357       | 359       | 384       | 392       | 399       | 418       |
| <b>CASH FLOW</b>  |           |           |           |           |           |           |           |
| Net cash flow from operating activity                                     | 2,191     | 5,656     | 10,108    | 6,348     | 8,318     | 7,273     | 6,984     |
| Investment in investment properties                                       | (37,045)  | (17,014)  | (23,246)  | (2,859)   | (29,415)  | (6,000)   | (12,000)  |
| Proceeds from disposal of investment property                             | 26,821    | 16,050    | 21,574    | 7,534     | 16,076    | 0         | 0         |
| Purchase of fixtures, equipment and motor vehicles                        | (532)     | (1,496)   | (586)     | (340)     | (900)     | (900)     | (900)     |
| Proceeds from sale of fixed assets  | 0         | 54        | 61        | 0         | 0         | 0         | 0         |
| Investments and loans to JV   | 0         | (4,916)   | (4,250)   | (8,809)   | (3,500)   | (10,000)  | (2,600)   |
| Distributions received from joint ventures                                | 0         | 567       | 1,031     | 676       | 27,400    | 1,050     | 1,575     |
| Proceeds from sale of joint ventures                                      | 0         | 0         | 0         | 0         | 0         | 0         | 0         |
| Payment for the acquisition of non-listed investments                     | 0         | 0         | (1,950)   | (175)     | 0         | 0         | 0         |
| Cash flow from investing activity   | (10,756)  | (6,755)   | (7,366)   | (3,973)   | 9,661     | (15,850)  | (13,925)  |
| Proceeds from borrowing   | 17,475    | 4,247     | 7,197     | 6,088     | 0         | 5,000     | 10,000    |
| Dividends paid  | (5,550)   | (5,550)   | (5,928)   | (6,114)   | (6,247)   | (6,300)   | (6,486)   |
| Cash flow from financing activity   | 11,925    | (1,303)   | 1,269     | (26)      | (6,247)   | (1,300)   | 3,514     |
| Change in cash  | 3,360     | (2,402)   | 4,011     | 2,349     | 11,733    | (9,877)   | (3,427)   |
| Opening cash  | (1,845)   | 1,515     | (887)     | 3,124     | 5,473     | 17,206    | 7,329     |
| Closing cash  | 1,515     | (887)     | 3,124     | 5,473     | 17,206    | 7,329     | 3,902     |
| Bank overdraft  | 0         | 887       | 0         | 0         | 0         | 0         | 0         |
| Cash as per balance sheet   | 1,515     | 0         | 3,124     | 5,473     | 17,206    | 7,329     | 3,902     |
| Financial liabilities   | (176,147) | (181,281) | (191,969) | (198,057) | (198,057) | (203,057) | (213,057) |
| Net debt  | (174,632) | (181,281) | (188,845) | (192,584) | (180,851) | (195,728) | (209,155) |
| Net LTV   | 49.7%     | 49.5%     | 49.3%     | 47.5%     | 45.9%     | 47.4%     | 48.0%     |

Source: Town Centre, Edison Investment Research

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