

Highcroft Investments PLC ("Highcroft" or the "Company")

Final results for the year ended 31 December 2020

KEY HIGHLIGHTS

- 3.4% decrease in net property income to £5,464,000 (2019 £5,656,000)
- 5.4% decrease in investment property valuation to £82,060,000 (2019 £86,710,000)
- No property acquisitions or property disposals in the period
- 6.0% decrease in net asset value per share to 1104p (2019 1175p)
- 13.8% decrease in adjusted earnings per share to 67.7p (2019 78.5p)
- A loss per share of 22.2p (2019 earnings 22.3p)
- Total debt increased by £1,000,000 to £27,200,000; LTV 33% (2019 30%)
- Cash £3,295,000 (2019 £1,559,000)
- 11.1% increase in final dividend to 30p per share (2019 27.00p per share) and an additional special dividend of 6p per share
- 18.7% increase in total dividend payable for 2020 (including the special dividend) to 57.00p per share (2019 48.00p per share)

Dear Shareholder,

Introduction

While 2020 will go down in history as one of the most difficult post war periods we have experienced I am pleased to report that in the circumstances Highcroft have delivered a commendable performance with net rent after bad debt provisions falling just 3.4% to £5.46m.

Property portfolio

Over the last few years we have purposefully repositioned the portfolio significantly, moving away from high street retail and into warehouses and onto well located out of town retail parks, to reflect the changing patterns of consumer behaviour. Whilst all retail locations were hit hard by lockdowns throughout 2020 it is fair to say that high street retail took the worst of it with retail parks fairing slightly better due to their ability to adhere more easily to social distancing rules and work as click and collect locations for online orders. At the year end, high street retail represented just 7% of the total portfolio with retail warehouses at 26% and warehouses at 46%. The positive trends on warehouse demand and values during the year partially offset the decline in capital values for retail assets, meaning that the valuation of the Highcroft portfolio fell by only 5.4% to £82.1m by the year-end. This compares favourably to the MSCI UK all property index which fell by 6.2% over the same period.

Due to the levels of uncertainty created by the COVID-19 pandemic we chose not to buy or sell any assets during the year and instead concentrated on working closely with our tenants to ensure we minimised rental voids and empty units. Our rental collection for 2020 is 94% of the contractual rent due. We also kept our debt levels conservative and manageable with our ratio of net debt to property value at 29% and an LTV of 33%. The overall impact on the company's net assets for the year was a reduction of just 6%.

People

When times are tough like they were in 2020 it is far too easy to just focus on the fact that returns for the year have been negative. Whilst not what we had hoped to deliver, it is easy to forget that in exceptional years like this the team have to go above and beyond their normal duties to protect shareholder value. To that end, I would like to thank the team at Highcroft for all their hard work and dedication during the year.

On 10 December 2020 David Kinglerlee announced that he would be representing the interests of our largest shareholder, Kinglerlee Holdings Limited, on the board and, with effect from 7 April 2021 (the date of signing of the year end accounts), would change his status from an executive director to a non-independent non-executive director. I would like to thank David for his contribution to the business over the many years he has worked as an executive director.

Dividend

Whilst we recognise the importance of dividends to our shareholders, we must balance this with ensuring we keep sufficient cash available to take account of unforeseen circumstances in what continue to be unpredictable times.

The Company's interim dividend was held at 21p as a result of good rent collection levels, and we are proposing a final dividend of 30p per ordinary share taking the total ordinary dividend for the year to 51p. When deciding on the final dividend for 2019 and interim dividend for 2020 we took certain rent collection projections into account. As actual rent collection have been strong we are also declaring a special dividend of 6p per ordinary share for 2020, making the total dividend payable in May 2021 36p per ordinary share.

Outlook

This time last year when we released our 2019 full year results, we were aware of the COVID-19 outbreak and the first 3-month UK wide lockdown had commenced. I certainly didn't think that a full year later we would only just be starting to see signs of the country getting back to some resemblance of normality.

Whilst we have a well-diversified portfolio, a relatively low level of gearing and a healthy cash balance, as a board we will continue to take a cautious approach to managing our portfolio and the group to ensure we can weather any further market volatility and continue to deliver long term shareholder value.

Charles Butler
Chairman

7 April 2021

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This announcement contains inside information for the purpose of Article 7 of Regulation (EU) No 596/2014.

Consolidated statement of comprehensive income
for the year ended 31 December 2020

	Note	2020			2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		6,084	-	6,084	5,840	-	5,840
Property operating expenses		(620)	-	(620)	(184)	-	(184)
Net rental income		5,464	-	5,464	5,656	-	5,656
Net gains on investment property		-	-	-	-	-	-
Valuation gains on investment property		-	2,525	2,525	-	739	739
Valuation losses on investment property		-	(7,175)	(7,175)	-	(3,627)	(3,627)
Net valuation losses on investment property		-	(4,650)	(4,650)	-	(2,888)	(2,888)
Dividend revenue		-	-	-	3	-	3
Gains on equity investments		-	-	-	-	53	53
Losses on equity investments		-	-	-	-	-	-
Net investment income		-	-	-	3	53	56
Administration expenses		(1,069)	-	(1,069)	(826)	-	(826)
Net operating (loss)/profit before net finance expense		4,395	(4,650)	(255)	4,833	(2,835)	1,998
Finance income		4	-	4	6	-	6
Finance expense		(896)	-	(896)	(856)	-	(856)
Net finance expense		(892)	-	(892)	(850)	-	(850)
(Loss)/profit before tax		3,503	(4,650)	(1,147)	3,983	(2,835)	1,148
Income tax (charge)/credit	1	-	-	-	72	(66)	6
(Loss) /profit for the year after tax		3,503	(4,650)	(1,147)	4,055	(2,901)	1,154
Total (loss)/profit and comprehensive (loss)/income for the year attributable to the owners of the parent		3,503	(4,650)	(1,147)	4,055	(2,901)	1,154
Basic and diluted earnings per share				(22.2p)			22.3p

Consolidated statement of financial position
at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Investment property	4	78,810	86,710
Equity investments at fair value through profit or loss	5	-	-
Total non-current assets		78,810	86,710
Current assets			
Trade and other receivables		1,692	1,147
Cash and cash equivalents		3,295	1,559
Assets classified as held for sale		4,987	2,706
		3,250	-
Total current assets		8,237	2,706
Total assets		87,047	89,416
Liabilities			
Current liabilities			
Interest bearing loan		-	4,000
Trade and other payables		2,726	2,495
Total current liabilities		2,726	6,495
Non-current liabilities			

Interest bearing loan	7	27,200	22,200
Deferred tax liabilities		-	-
Total non-current liabilities		27,200	22,200
Total liabilities		29,926	28,695
Net assets		57,121	60,721
Equity			
Issued share capital		1,294	1,292
Share-based payment reserve		43	12
Revaluation reserve - property		12,814	12,931
Other equity reserve		(53)	-
Share premium		51	-
Capital redemption reserve		95	95
Realised capital reserve		28,995	28,995
Retained earnings		13,882	17,396
Total equity attributable to the owners of the parent		57,121	60,721

Consolidated statement of changes in equity

2020	Issued share capital £'000	Share-based payment reserve £'000	Revaluation reserve- property £'000	Other equity reserve £'000	Share premium £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2020	1,292	12	12,931	-	-	95	28,995	17,396	60,721
Transactions with owners:									
Issue of shares	2	-	-	(53)	51	-	-	-	-
Dividends	-	-	-	-	-	-	-	(2,484)	(2,484)
	2	-	-	(53)	51	-	-	(2,484)	(2,484)
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation losses	-	-	(4,650)	-	-	-	-	4,650	-
Change in excess of cost over fair value through retained earnings	-	-	4,533	-	-	-	-	(4,533)	-
	-	-	(117)	-	-	-	-	117	-
Share award expensed	-	31	-	-	-	-	-	-	31
Total comprehensive income for the year	-	-	-	-	-	-	-	(1,147)	(1,147)
At 31 December 2020	1,294	43	12,814	(53)	51	95	28,995	13,882	57,121

Consolidated statement of changes in equity continued

2019	Issued share capital £'000	Share Based payment reserve £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019	1,292	-	18,770	574	95	28,378	13,275	62,384
Transactions with owners:	-	-	-	-	-	-	(2,829)	(2,829)
Dividends	-	-	-	-	-	-	-	-
Reserve transfers:								
Non-distributable items recognised in income statement:								
Revaluation losses	-	-	(2,888)	-	-	-	2,888	-
Realised gains/(losses)	-	-	-	-	-	43	(43)	-
Movement in deferred tax on realisation of equities	-	-	-	29	-	(29)	-	-
Surplus attributable to assets sold in the year	-	-	-	(603)	-	603	-	-
Reassessment of carrying value of reserves	-	-	(4,168)	-	-	-	4,168	-
Change in excess of cost over fair value through retained earnings	-	-	1,217	-	-	-	(1,217)	-
	-	-	(5,839)	(574)	-	617	5,796	-
Share award expensed	-	12	-	-	-	-	-	12
Total comprehensive income for the year	-	-	-	-	-	-	1,154	1,154
At 31 December 2019	1,292	12	12,931	-	95	28,995	17,396	60,721

Consolidated statement of cash flows

for the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before tax on ordinary activities	(1,147)	1,148
Adjustments for:		
Net valuation losses/(gains) on investment property	4,650	2,888
Net gain on disposal of investment property	-	-
Net (gain)/loss on investments	-	(53)
Share-based payment expense	31	12
Finance income	(4)	(6)
Finance expense	896	856
Operating cashflow before changes in working capital and provisions	4,426	4,845
(Increase)/decrease in trade and other receivables	(545)	(667)
Increase in trade and other payables	252	325
Cash generated from operations	4,133	4,503
Finance income	4	6
Finance expense	(896)	(856)
Income taxes paid	(21)	(93)
Net cashflows from operating activities	3,220	3,560
Investing activities		
Purchase of non-current assets - investment property	-	(11,898)
Sale of non-current assets - investment property	-	-
- equity investments	-	724
Net cashflows from investing activities	-	(11,174)
Financing activities		
Dividends paid	(2,484)	(2,829)
Repayment of bank borrowings	(4,000)	-
New bank borrowings	5,000	6,800
Net cashflows from financing activities	(1,484)	3,971
Net increase/(decrease) in cash and cash equivalents	1,736	(3,643)
Cash and cash equivalents at 1 January	1,559	5,202
Cash and cash equivalents at 31 December	3,295	1,559

Notes

for the year ended 31 December 2020

1 Income tax credit

	2020 £'000	2019 £'000
Current tax:		
On revenue profits - current year	(8)	72
- prior year	8	-
On capital profits	-	(99)
	-	(27)
Deferred tax	-	33
Income tax credit	-	6

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2019 19%).
The differences are explained as follows:

	2020 £'000	2019 £'000
Profit before tax	(1,147)	1,148
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019 19%)	(218)	218
Effect of:		
Tax exempt revenues	-	(11)
Profit not taxable as a result of REIT status	220	(216)
Chargeable gains more than accounting profit	-	103
Use of management expenses	-	(67)
Change in deferred tax liability	-	(33)
Adjustment in respect of previous years	(2)	-
Income tax credit	-	(6)

2 Dividends

In 2020 the following dividends have been paid by the company:

	2020 £'000	2019 £'000
2019 Final: 27.00p per ordinary share (2018 33.75p)	1,397	1,744
2020 Interim: 21.00p per ordinary share (2019 21.00p)	1,087	1,085
	2,484	2,829

On 7 April 2021 the directors declared a final property income distribution for 2020 of £1,553,000, 30.00p per share, together with a special property income distribution for 2020 of £311,000, 6.00p per share, (2019 final property income distribution of £1,397,000, 27.00p per share) both payable on 27 May 2021 to shareholders registered on 23 April 2021.

3 Earnings per share

The calculation of earnings per share is based on the total loss after tax for the year of £1,147,000 (2019 profit £1,154,000) and on 5,172,465 shares (2019 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2020. There are no dilutive instruments.

In order to draw attention to the profit that is not due to the impact of valuation gains and losses, which are included in the statement of comprehensive income but not available for distribution under the company's articles of association, an adjusted earnings per share based on the profit available for distribution of £3,503,000 (2019 £4,055,000) has been calculated.

	2020 £'000	2019 £'000
Earnings:		
Basic profit for the year	(1,147)	1,154
Adjustments for:		
Net valuation losses on investment property	4,650	2,888
Gains on investments	-	(53)
Income tax on profit	-	66
Adjusted earnings	3,503	4,055
Per share amount:		
Earnings per share (unadjusted)	(22.2p)	22.3p
Adjustments for:		
Net valuation losses/(gains) on investment property	89.9p	55.9p
Gains on investments	-	(1.0p)
Income tax on profits	-	1.3p
Adjusted earnings per share	67.7p	78.5p

4 Investment property

	2020 £'000	2019 £'000
Total valuation at 1 January	86,710	77,700
Additions	-	11,898
Revaluation losses	(4,650)	(2,888)
Valuation at 31 December	82,060	86,710
Less property held for sale categorised as current asset	(3,250)	-
	78,810	86,710

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by independent external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2020, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value.

The historical cost of the group's investment properties is £76,832,000 (2019 £76,832,000).

Valuation process

The valuation reports produced by the independent external valuers are based on information provided by the group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure (if any). This information is derived from the group's property management and financial information systems and is subject to the group's overall control environment.

In addition, the valuation reports are based on assumptions and models used by the independent valuer. The assumptions are typically market related such as yields and discount rates and are based on their professional judgement and market observation. Each property is considered a separate asset class based on the unique nature, characteristics, and risks of the property.

During 2020, many valuations were reported with material valuation uncertainty clauses on certain classes of assets. However, valuation markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, our independent valuers have confirmed that the valuation at 31 December 2020 is not reported as being subject to material valuation uncertainty.

The executive director responsible for the valuation process verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussion with the independent valuer. When this process is complete, the whole board then meet the valuer in the presence of the auditor. The valuation report is recommended to the audit committee, which considers it as part of its overall responsibilities.

Valuation technique

The fair value of the property portfolio has been determined using an income capitalisation technique whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on an arm's length terms.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as level 3 in the fair value hierarchy. In 2019, all investment properties were classified were with level 2 inputs. The change to the classification to level 3 is to comply with best practice and for comparison purposes.

5 Equity investments

	2020 £'000	2019 £'000
Valuation at 1 January	-	679
Disposals	-	(670)
Valuation at 31 December	-	9
Unlisted investments transferred to other receivables	-	(9)
Equity investments at 31 December	-	-

6 Assets classified as held for sale

	2020 £'000	2019 £'000
Investment property held for sale	3,250	-

In December 2020, the directors decided to sell our Andover investment property in early 2021 to take advantage of prevailing market sentiment. There were several interested parties, and, at the date of this report, contracts have been exchanged for the disposal with a conditional completion arrangement.

7 Interest bearing loans

	2020 £'000	2019 £'000
Short-term bank loans due within one year	-	4,000

Medium-term bank loans	27,200	22,200
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	7,500	-
Between two and five years	-	7,500
Over five years	19,700	14,700
	<u>27,200</u>	<u>22,200</u>

8 Basis of preparation

The preliminary announcement has been prepared in accordance with applicable accounting standards as stated in the financial statements for the year ended 31 December 2020. The accounting policies remain unchanged.

9 Annual General Meeting

The Annual General Meeting will be held on 20 May 2021.

10 Publication of non-statutory accounts

The above does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2020 on which the auditor has expressed an unmodified opinion and does not include any statement under section 498 of the Companies Act 2006. The accounts will be posted to shareholders on or before 22 April 2021 and subsequently filed at Companies House.

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