

Highcroft Investments PLC

Final results for the year ended 31 December 2019

KEY HIGHLIGHTS

- 16.4% increase in net property income to £5,656,000 (2018 £4,859,000)
- 11.6% increase in investment property valuation to £86,710,000 (2018 £77,700,000)
- Property acquisitions of £11,898,000, no property disposals
- 2.7% decrease in net asset value per share to 1175p (2018 1207p)
- 10.1% decrease in adjusted earnings per share to 78.5p (2018 87.3p)
- 76.6% decrease in earnings per share to 22.3p (2018 95.3p)
- Total debt increased by £6,800,000 to £26,200,000; LTV 30% (2018 25%)
- Cash and liquid equity investments £1,559,000 (2018 £5,881,000)
- 12.7% total shareholder return (2018 5.2%)
- 20.0% decrease in final dividend to 27.00p per share (2018 33.75p per share)
- 8.6% decrease in total dividend to 48.00p per share (2018 52.50p per share)

Dear Shareholder,

Introduction

I am pleased to say Highcroft has delivered a robust performance in the 2019 financial year. As a result of our proactive asset management strategy, we have reported an increase in net property income of 16.4% and a total shareholder return of 12.7%.

This provided a strong starting point for the current financial year, however the Covid-19 pandemic has now introduced a significant level of uncertainty into the marketplace in which we operate and in turn for all our stakeholders. As a consequence, we are in regular dialogue with our tenants to understand their needs and will continue to monitor on-going developments carefully and take any necessary action, if required.

Property portfolio

Throughout 2019 the property market faced unsettled conditions with different sub sectors affected in different ways. In support of our on-going diversification away from high street retail, we have seen warehouses and logistics continue to perform well as the structural shift to online shopping continues. During the year we made two property acquisitions, one warehouse and one leisure asset. The total gross acquisition cost for both properties was £11.9m with income of £1.15m giving a strong combined net initial yield of 9.7%.

We continue to actively asset manage our portfolio and at the year-end warehouse/industrial accounted for 42% of portfolio valuation (2018 39%). At the other end of the spectrum one of the more challenging sub sectors has been retail where we have very limited exposure to the high street at just 8% (2018 10%). We also have 27% (2018 33%) of our portfolio in retail warehouses however we have strong tenant covenants, affordable rents and good access for both traditional shoppers or online shoppers using click and collect at these properties.

During the year we increased the total value of property assets on our balance sheet by 11.6% to £86.7m while maintaining our conservative view on debt with loan to property valuation (LTV) levels of 30% (2018 25%).

Our net asset value per share fell by 2.7% (32p per share), comprising income of 78.5p per share, an asset revaluation loss of 55.9p per share and dividends paid in the year of 54.75p per share. The revaluation loss was 3.6% on a like-for-like basis which compares favourably with an IPD all property capital value decrease of 3.8%.

Covid-19

The global coronavirus pandemic, that was announced by the World Health Organisation on 11 March 2020, has introduced significant levels of uncertainty into most businesses. There are key uncertainties regarding the extent and duration of lockdown and social distancing measures which have impacted some of our tenants' ability to carry on their normal business and generate sufficient cash to pay their rent. While it is too early to assess the full impact that this will have on our tenants we are aware that, notwithstanding our strong tenant covenants, we will be unable to collect a proportion of our full Q2 rent on the usual payment days, or during the quarter. Whilst we have not agreed to waive any rent due by our tenants, this will influence our short-term cash generation. Consequently, we have challenged all our future assumptions and forecasts and run a sensitivity analysis and stress test. As a result, we are confident, based on the information available to us at the date of this report, that the group remains robust financially and has a viable model to continue to create shareholder value over the long term.

Dividend

The company's interim dividend was increased 12.0% as a result of strong revenue growth and this revenue growth continued into the second half of the year. We have very carefully considered the level of final dividend for the year. Whilst we recorded a robust set of results in 2019, we are in the midst of a global pandemic. We recognise the importance of the dividend to our shareholders but also that it is the group's most significant cash out-flow and that we need to manage our cash resources prudently at this difficult time. We are therefore recommending a final dividend of 27.00p per share which is a 20% decrease on the prior year, giving a total dividend of 48.00p per share, a decrease of 8.6% year-on-year. Whilst we have not met our stated strategy of increasing dividends in excess of inflation every year, I am sure that you will agree that we all find ourselves in exceptional circumstances at this time.

Outlook

After a turbulent macro-economic environment in 2019, we ended the year with increased confidence levels for the UK property market and a higher degree of political certainty than for some time, following the UK general election result on 12 December and with a Brexit withdrawal agreement. Operationally we achieved a robust result in 2019 and entered 2020 with clear strategic direction, a well-balanced income producing portfolio and modest gearing.

During the first quarter of 2020 everything changed significantly as the impacts of the Covid-19 pandemic began to unfold, and undoubtedly 2020 is likely to be an extremely challenging year for us all. Highcroft is however well positioned, with a well-diversified, high-quality property portfolio, a low level of gearing and a strong management team which should position us well to survive the current crisis and continue to create long-term shareholder value.

30 April 2020

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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 2019

	Note	2019			2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		5,840	-	5,840	5,043	-	5,043
Property operating expenses		(184)	-	(184)	(184)	-	(184)
Net rental income		5,656	-	5,656	4,859	-	4,859
Net gains on disposal of investment property		-	-	-	967	-	967
Valuation gains on investment property		-	739	739	-	2,600	2,600
Valuation losses on investment property		-	(3,627)	(3,627)	-	(2,116)	(2,116)
Net valuation (losses)/gains on investment property		-	(2,888)	(2,888)	-	484	484
Dividend revenue		3	-	3	54	-	54
Gains on equity investments		-	53	53	-	48	48
Losses on equity investments		-	-	-	-	(166)	(166)
Net investment income		3	53	56	54	(118)	(64)
Administration expenses		(826)	-	(826)	(736)	-	(736)
Net operating profit before net finance income		4,833	(2,835)	1,998	5,144	366	5,510
Finance income		6	-	6	6	-	6
Finance expense		(856)	-	(856)	(705)	-	(705)
Net finance expense		(850)	-	(850)	(699)	-	(699)
Profit before tax		3,983	(2,835)	1,148	4,445	366	4,811
Income tax credit/(charge)	1	72	(66)	6	67	48	115
Profit for the year after tax		4,055	(2,901)	1,154	4,512	414	4,926
Total profit and comprehensive income for the year attributable to the owners of the parent		4,055	(2,901)	1,154	4,512	414	4,926
Basic and diluted earnings per share				22.3p			95.3p

Consolidated statement of financial position
at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Investment property	4	86,710	77,700
Equity investments	5	-	679
Total non-current assets		86,710	78,379
Current assets			
Trade and other receivables		1,147	471
Cash and cash equivalents		1,559	5,202
Total current assets		2,706	5,673
Total assets		89,416	84,052
Liabilities			
Current liabilities			
Interest bearing loan		4,000	-
Trade and other payables		2,495	2,235
Total current liabilities		6,495	2,235
Non-current liabilities			
Interest bearing loan	6	22,200	19,400
Deferred tax liabilities		-	33
Total non-current liabilities		22,200	19,433
Total liabilities		28,695	21,668
Net assets		60,721	62,384

Equity		
Issued share capital	1,292	1,292
Share based payment reserve	12	-
Revaluation reserve - property	12,931	18,770
- other	-	574
Capital redemption reserve	95	95
Realised capital reserve	28,995	28,378
Retained earnings	17,396	13,275
Total equity attributable to the owners of the parent	60,721	62,384

Consolidated statement of changes in equity

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:								
Dividends	-	-	-	-	-	-	(2,829)	(2,829)
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	-
Excess of cost over revalued amount taken to 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 changes in equity continued

2018	Issued share capital £'000	Revaluation reserves Property £'000	Other £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	1,292	18,015	538	95	26,611	13,426	59,977
Transactions with owners:							
Dividends	-	-	-	-	-	(2,519)	(2,519)
Reserve transfers:							
Non-distributable items recognised in income statement:							
Revaluation gains/(losses)	-	484	(121)	-	-	(363)	-
Tax on revaluation gains	-	-	48	-	-	(48)	-
Realised gains/(losses)	-	-	-	-	969	(969)	-
Movement in deferred tax on realisation of equities	-	-	1,161	-	(1,161)	-	-
Surplus attributable to assets sold in the year	-	(907)	(1,052)	-	1,959	-	-
Excess of cost over revalued amount taken to retained earnings	-	1,178	-	-	-	(1,178)	-
	-	755	36	-	1,767	(2,558)	-
Total comprehensive income for the year	-	-	-	-	-	4,926	4,926
At 31 December 2018	1,292	18,770	574	95	28,378	13,275	62,384

Consolidated statement of cash flows

for the year ended 31 December 2019

	2019 £'000	2018 £'000
Operating activities		
Profit before tax on ordinary activities	1,148	4,811
Adjustments for:		
Net valuation losses/(gains) on investment property	2,888	(484)

Net gain on disposal of investment property	-	(967)
Net (gain)/loss on investments	(53)	118
Share based payment expense	12	-
Finance income	(6)	(6)
Finance expense	856	705
Operating cash flow before changes in working capital and provisions	4,845	4,177
(Increase)/decrease in trade and other receivables	(667)	66
Increase in trade and other payables	325	89
Cash generated from operations	4,503	4,332
Finance income	6	6
Finance expense	(856)	(705)
Income taxes paid	(93)	(13)
Net cashflows from operating activities	3,560	3,620
Investing activities		
Purchase of non-current assets - investment property	(11,898)	(5,226)
Sale of non-current assets - investment property	-	6,090
- equity investments	724	1,333
Net cash flows from investing activities	(11,174)	2,197
Financing activities		
Dividends paid	(2,829)	(2,519)
New bank borrowings	6,800	-
Net cashflows from financing activities	3,971	(2,519)
Net (decrease)/increase in cash and cash equivalents	(3,643)	3,298
Cash and cash equivalents at 1 January	5,202	1,904
Cash and cash equivalents at 31 December	1,559	5,202

Notes

for the year ended 31 December 2019

1 Income tax credit

	2019	2018
	£'000	£'000
Current tax:		
On revenue profits	72	67
On capital profits	(99)	-
Deferred tax	33	67
Income tax credit	6	115

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018 19%).

The differences are explained as follows:

	2019	2018
	£'000	£'000
Profit before tax	1,148	4,811
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018 19%)	218	914
Effect of:		
Tax exempt revenues	(11)	13
Profit not taxable as a result of REIT status	(216)	(1,199)
Chargeable gains more than accounting profit	103	172
Use of management expenses	(67)	20
Change in deferred tax liability	(33)	(48)
Adjustment in respect of previous years	-	13
Income tax credit	(6)	(115)

2 Dividends

In 2019 the following dividends have been paid by the company:

	2019	2018
	£'000	£'000
2018 Final: 33.75p per ordinary share (2017 30.00p)	1,744	1,550
2019 Interim: 21.00p per ordinary share (2018 18.75p)	1,085	969
	2,829	2,519

The directors recommend a property income distribution of £1,395,000, 27.00p per share (2018 £1,744,000, 33.75p per share) payable on 19 June 2020 to shareholders registered at 15 May 2020.

3 Earnings per share

The calculation of earnings per share is based on the total profit for the year of £1,154,000 (2018 £4,926,000) and on 5,167,240 shares (2018 5,167,240) which is the weighted average number of shares in issue during the year ended 31 December 2019 and throughout the period since 1 January 2018. There are no dilutive instruments.

In order to draw attention to the profit which 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 £4,055,000 (2018 £4,512,000) has been calculated.

	2019	2018
	£'000	£'000
Earnings:		
Basic profit for the year	1,154	4,926
Adjustments for:		
Net valuation losses/(gains) on investment property	2,888	(484)
(Gains)/losses on investments	(53)	118
Income tax on profit	66	(48)
Adjusted earnings	4,055	4,512
Per share amount:		
Earnings per share (unadjusted)	22.3p	95.3p

Adjustments for:		
Net valuation losses/(gains) on investment property	55.9p	(9.4p)
(Gains)/losses on investments	(1.0p)	2.3p
Income tax on profits	1.3p	(0.9p)
Adjusted earnings per share	<u>78.5p</u>	<u>87.3p</u>

4 Investment property

	2019	2018
	£'000	£'000
Total valuation at 1 January	77,700	77,113
Additions	11,898	5,226
Disposals	-	(5,123)
Revaluation (losses)/gains	(2,888)	484
Valuation at 31 December	<u>86,710</u>	<u>77,700</u>

In accordance with IAS 40 the carrying value of investment properties is their fair value as determined by external valuers. This valuation has been conducted by Knight Frank LLP, as external valuers, and has been prepared as at 31 December 2019, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors, on the basis of market value. This value has been incorporated into the financial statements at fair value categorised with level 2 inputs.

The independent valuation of all property assets uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. Significant increases or decreases in estimated rental value and rent growth per annum in isolation would result in a significantly lower or higher fair value. Generally a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in rent growth per annum and discount rate and an opposite change in the long-term vacancy rate.

5 Equity investments

	2019	2018
	£'000	£'000
Valuation at 1 January	679	2,131
Disposals	(670)	(1,331)
Loss on revaluation in excess of cost	-	(121)
Revaluation decrease below cost	-	-
Valuation at 31 December	<u>9</u>	<u>679</u>
Unlisted investments transferred to other receivable	(9)	-
Equity investments at 31 December	<u>-</u>	<u>679</u>

6 Interest bearing loans

	2019	2018
	£'000	£'000
Short-term bank loans due within one year	4,000	-
Medium-term bank loans	<u>22,200</u>	<u>19,400</u>
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	-	4,000
Between two and five years	7,500	7,500
Over five years	<u>14,700</u>	<u>7,900</u>
	<u>22,200</u>	<u>19,400</u>

7 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 2019. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 10 June 2020.

9 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 2019 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 6 May 2020 and subsequently filed at Companies House.

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