

CORPORATE

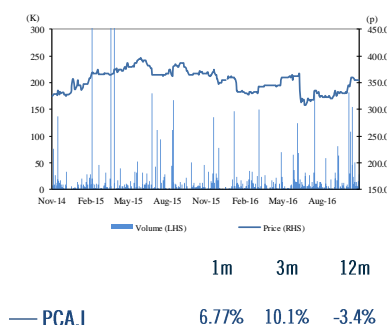
Current price 360p

Sector Real Estate Investment

Code (PCA.L)

Listing AIM

SHARE PERFORMANCE



Source: Fidessa, Allenby Capital

SHARE DATA

Market cap £92.3m

Shares in issue 25.7m

52 weeks High Low

375p 320p

Financial year end 31 March

Source: Company Data, Allenby Capital

KEY SHAREHOLDERS (EXCL. PLACING)

Polar Capital Euro Forager 14.75%

Schroders 14.06%

Henderson Global Investors 9.91%

Quantum Partners 9.90%

Stanley Davis 6.07%

Unicorn Asset Management 5.04%

Source: Company Data, Allenby Capital

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PALACE CAPITAL PLC (PCA.L)

Positive lettings underpin net rental income forecast

Recent lettings at two different portfolio assets in Exeter provide some reassurance regarding the relative stability of provincial letting markets post the referendum. They also illustrate the significant dual benefits available as new lettings increase rent roll and reduce exposure to both empty building rates and service charge shortfalls.

We have held our forecasts, which we will review together with other portfolio updates when Palace announces its interim results next Monday 21 November 2016.

The lettings, both in Exeter, are:

- 7 November. The Forum, the group's 39,000 sq ft office building is now fully let. The third floor, vacant since before Palace acquired the building in October 2013 has been let to two professional firms. Ten-year leases, subject to review/break clauses at end of year five will generate £81,589 pa aggregate rent, from May 2017 as both are subject to initial six-month rent free periods. Palace will however immediately benefit from cessation of a combined £110,718 pa cost of empty buildings rates and service charge shortfalls. This letting therefore effectively adds £192,307 pa to group revenues from May 2017.
- 14 November. Wheaton's Exeter has taken a new ten-year lease (with no break) of the former Polestar Building on the Marsh Barton Trading Estate. This provides Palace with continuity of rental income and removes any potential risk that it would have to cover costly empty rates after six months, plus security and insurance. The new lease runs from 9 August 2016 at an initial rent of £282,000 pa exclusive for the first 18 months. That is below previous passing rent but rises to £452,000 pa from 9 February 2018 until an August 2021 review, and after that it will not be less than £485,900 pa.
- We reiterate our view that at 360p, the shares discount considerable market risk. That's 13% below last reported NAV/share, supported by a 5.0% prospective yield fully-covered by earnings (based upon recurring revenues). Recent portfolio news and updates point to another robust rental performance and although Brexit may have affected investment yields, medium term NAV growth prospects are underpinned by planned refurbishment projects with potential to transform net rent and capital values.

EXHIBIT 1: SUMMARY FINANCIALS (£M)

Y/E March	2015A	2016A	2017E	2018E
NET REVENUE	7.4	13.0	11.9	12.7
ADJ. PRE-TAX PROFIT	4.6	5.5	6.6	7.0
REVALUATION GAINS	9.77	3.6	0.0	0.0
PRE-TAX	13.9	11.8	6.6	7.0
EPRA EPS	27.7	31.3	21.7	22.6
EPS (DILUTED) ADJ.	26.9	18.4	21.6	22.6
DIVIDEND/SHARE (P)	13.0	16.0	18.0	18.0
DIVIDEND YIELD	3.6%	4.4%	5.0%	5.0%
NAV/SHARE (P)	375	414	418	423

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