

## CORPORATE

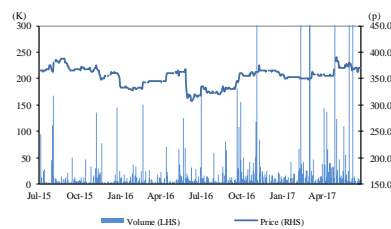
 Current price **370.0p**

 Sector **Real Estate Investment**

 Code **(PCA.L)**

 Listing **AIM**

### SHARE PERFORMANCE



	1m	3m	12m
— PCA.L	-	+3.5%	+16.5%
	1.33%		%

Source: Fidessa, Allenby Capital

### SHARE DATA

 Market cap **£94.9m**

 Shares in issue **25.7mm**

52 weeks	High	Low
	<b>390p</b>	<b>318p</b>

 Financial year end **31 March**

Source: Company Data, Allenby Capital

### KEY SHAREHOLDERS

Henderson Global Investors	9.91%
Miton Group	9.69%
Polar Capital Euro Forager	9.49%
Schroders Plc	6.73%
Stanley Harold Davis	6.22%
Unicorn Asset Management	5.04%

Source: Company Data, Allenby Capital

### Allenby Capital Research

+44 (0)20 3328 5666

research@allenbycapital.com

[www.allenbycapital.com](http://www.allenbycapital.com)

## PALACE CAPITAL PLC (PCA.L)

### Acquisition of modern Newcastle offices

Palace has acquired St James' Gate, a £20m value commercial property in Newcastle located near the city's railway station. This acquisition, flagged at the results in June, was already in our year-end forecasts, but the 8.6% NIY is better than the 7.0% we had anticipated, and LTV based on new debt is 57.5% (vs 50% assumed). Funded by £8.5m existing cash and a new £11.5m facility provided by Santander UK, the purchase consumes much of the £11m of cash and £3.6m of undrawn debt available at end March. Post this acquisition, PCA is thus fully deployed, with aggregate LTV at 43%, at the top end of its gearing policy.

- Asset description.** PCA acquired the entire issued share capital of the asset's owner, SM Newcastle OB Ltd. The property, St James' Gate, is a modern, eight storey (82,568 sq ft) office block with parking, built in 2006 in a city centre location. Total net income is c £1.765m pa – equivalent to an 8.6% net initial yield after purchase costs - derived from five tenants. These include the National Lottery Charities Board, Eldon Insurance Services and Serco. The asset also includes 16,500 sq ft of retail space, which generates £0.16m pa net. The common parts and recently let floors have been refurbished, and the vendor is committed to a rental top-up for the vacant unit.

Rent is underpinned by the strong tenant profile, revenue visibility by the 5.8 years WAULT to expiry/4 years to break options. Growth prospects are supported by the relatively low, £230 per sq ft purchase price, and limited vacant space currently available in Newcastle City Centre either for lease, or under construction.

- PCA valuation attractive on 19% discount to FY18e EPRA NAV, 5.4% prospective yield** This acquisition is another illustration of Palace's core strategy to recycle cash from sales of smaller, ex-growth assets, to generate immediate returns above related debt and asset management costs, support portfolio and net income growth to fund progressive dividends. The addition of St James' Gate, the second largest asset in the group portfolio, immediately enhances cash generation and underpins the medium term NAV outlook.

In our view the current, 19% discount to FY18 NAV undervalues a proven focus on well-situated assets with identified asset management potential, located in vibrant provincial markets, backed by one of the sector's strongest NAV growth records. We've pushed up the FY19e distribution to 19.5p in line with the improved terms of this purchase.

#### EXHIBIT 1: SUMMARY FINANCIALS

Y/E March	2016A	2017A	2018E	2019E
<b>NET REVENUE</b>	<b>9.8</b>	<b>12.2</b>	<b>12.5</b>	<b>13.7</b>
<b>ADJ. PRE-TAX PROFIT</b>	<b>5.5</b>	<b>6.7</b>	<b>6.2</b>	<b>7.2</b>
REVALUATION GAINS	3.6	3.1	0.0	0.0
<b>PRE-TAX (IFRS)</b>	<b>11.8</b>	<b>12.6</b>	<b>6.2</b>	<b>7.2</b>
ADJ. EPS (DILUTED)	18.4	22.2	20.0	23.7
<b>DIVIDEND/SHARE (P)</b>	<b>16.0</b>	<b>18.5</b>	<b>19.0</b>	<b>19.5</b>
DIVIDEND YIELD	4.4%	5.1%	5.3%	5.4%
<b>EPRA NAV/SHARE (P)</b>	<b>414</b>	<b>443</b>	<b>454</b>	<b>456</b>

Source: Company data, Allenby Capital (Adj. PTP incl. profit from asset sales, excludes acq. costs)

Allenby Capital acts as nominated adviser and broker to Palace Capital Plc (PCAL).

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<b>INCOME STATEMENT</b>				
<b>Year to 31 March</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>
Rents received from investment properties	11,375	13,809	13,400	14,000
Management fees & other income	46	457	450	450
Surrender premium	3,172	0	0	0
<b>Total Revenue</b>	<b>14,593</b>	<b>14,266</b>	<b>13,850</b>	<b>14,450</b>
Non-recoverable property costs	-1,624	-2,055	-1,350	-800
Net property income	12,969	12,211	12,500	13,650
Administrative expenses	-2,048	-2,915	-3,100	-3,100
<b>Operating profit before gains and losses on property assets and cost of acquisitions</b>	<b>10,921</b>	<b>9,296</b>	<b>9,400</b>	<b>10,550</b>
Gains on revaluation of inv. portfolios	3,620	3,101	0	0
Profit on disposal of inv. properties	290	3,191	0	0
Cost of acquisitions	-815	0	0	0
<b>Operating profit</b>	<b>14,016</b>	<b>15,588</b>	<b>9,400</b>	<b>10,550</b>
Finance income	34	3	0	0
Finance expense	-2,298	-3,014	-3,250	-3,350
<b>Pre-tax profit</b>	<b>11,752</b>	<b>12,577</b>	<b>6,150</b>	<b>7,200</b>
<b>Adjusted pre-tax profit</b>	<b>5,485</b>	<b>6,285</b>	<b>6,150</b>	<b>7,200</b>
Taxation	-953	-3,191	-1,000	-1,100
<b>Net profit after tax</b>	<b>10,799</b>	<b>9,386</b>	<b>5,150</b>	<b>6,100</b>
<b>Underlying PAT</b>	<b>4,532</b>	<b>3,498</b>	<b>5,150</b>	<b>6,100</b>
<b>Earnings per share</b>				
Basic	43.9	36.6	20.0	23.8
Diluted	43.9	36.5	20.0	23.7
Adjusted cash EPS	18.4	22.2	20.0	23.7
Dividend per share	16.0	18.5	19.0	19.5
Dividend cover	1.15x	1.20x	1.05x	1.22x

Source: Company data, Allenby Capital

<b>BALANCE SHEET</b>				
<b>Year to 31 March</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>
<b>Non-current assets</b>				
Goodwill	0	0	0	0
Investment properties	174,542	183,916	208,916	213,916
Property, plant and equipment	37	43	16	25
Deferred tax	334	0	0	0
Trade and other receivables	825	0	0	0
	<b>175,738</b>	<b>183,959</b>	<b>208,932</b>	<b>213,941</b>
<b>Current assets</b>				
Trade and other receivables	3,327	2,511	2,511	2,511
Cash at bank and in hand	8,576	11,181	4,491	3,184
	<b>11,903</b>	<b>13,692</b>	<b>7,002</b>	<b>5,695</b>
<b>Current liabilities</b>				
Trade and other payables	-6,815	-6,161	-6,200	-6,200
Borrowings	-2,233	-2,036	-3,300	-3,300
Creditors: amounts falling due within one year	-9,048	-8,197	-9,500	-9,500
<b>Net current assets</b>	<b>2,855</b>	<b>5,495</b>	<b>-2,498</b>	<b>-3,805</b>
<b>Non-current liabilities</b>				
Borrowings	-69,711	-75,758	-90,000	-93,250
Deferred tax liability		-2,187	-2,187	-2,187
Obligations under finance leases	-2,067	-1,950	-1,850	-1,750
<b>Net assets</b>	<b>106,815</b>	<b>109,559</b>	<b>112,397</b>	<b>112,949</b>
<b>Basic NAV/share</b>	<b>414p</b>	<b>436p</b>	<b>447p</b>	<b>449p</b>
<b>Diluted NAV/share</b>	<b>414p</b>	<b>434p</b>	<b>445p</b>	<b>448p</b>
<b>EPRA NAV/share - Basic</b>	<b>414p</b>	<b>443p</b>	<b>454p</b>	<b>456p</b>

Source: Company data, Allenby Capital

<b>CASHFLOW STATEMENT</b>				
<b>Year to 31 March</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>
<b>Operating Activities</b>				
Net cash generated in operations	12,287	10,294	9,459	10,570
Interest received	34	0	0	0
Interest and other finance charges paid	-3,455	-2,516	-3,250	-3,350
Corporation tax paid in respect of operating activities	-158	-1,047	-1,000	-1,000
<b>Net cash flows from operating activities</b>	<b>8,708</b>	<b>6,731</b>	<b>5,209</b>	<b>6,230</b>
<b>Investing Activities</b>				
Purchase of investment property	-21,689	-10,950	-20,000	0
Payments to acquire subsidiary undertakings	-29,095	0	0	0
Capital expenditure on refurbishment of investment property	-1,182	-4,579	-5,000	-5,000
Deposit paid on purchase of investment property	0	0	0	0
Proceeds from disposal of investment property	1,957	12,447	0	0
Purchases of property, plant and equipment	-3	-26	-25	-25
<b>Net cash flow (used in)/from investment activities</b>	<b>-50,012</b>	<b>-3,108</b>	<b>-25,025</b>	<b>-5,025</b>
<b>Financing Activities</b>				
Other loans repaid	0	0	0	0
Bank loans repaid	-17,010	-19,952	0	0
Proceeds from new bank loans	38,282	25,813	18,000	2,500
Issue of new share capital	19,114	29	0	0
Purchase of treasury shares	0	-2,250	0	0
Fees relating to cancellation of deferred shares	0	0	0	0
Dividends paid	-3,221	-4,617	-4,874	-5,002
Capital element of finance lease rental payments	-2	0	0	0
Net cash flow from financing activities	37,163	-1,018	13,126	-2,502
<b>Net Increase in Cash and Cash Equivalents</b>	<b>-4,141</b>	<b>2,605</b>	<b>-6,690</b>	<b>-1,307</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>12,278</b>	<b>8,576</b>	<b>11,181</b>	<b>4,491</b>
<b>Cash acquired</b>	<b>439</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>8,576</b>	<b>11,181</b>	<b>4,491</b>	<b>3,184</b>

Source: Company data, Allenby Capital

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**Allenby Capital**  
**3 St Helen's Place London EC3A 6AB**  
**+44 (0)20 3328 5656**

[www.allenbycapital.com](http://www.allenbycapital.com)