

RNS Number : 3057G

Highcroft Investments PLC

29 March 2022

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

Final results for the year ended 31 December 2021

KEY HIGHLIGHTS

- 6.7% increase in investment property valuation to £87,565,000 (2020 £82,060,000)
- 11.1% increase in property valuation on a like-for-like basis (2020 5.4% decrease)
- 3.8% decrease in net property income to £5,258,000 (2020 £5,464,000)
- 2021 rent collection 97% (2020 94%)
- One property disposal in the year at a 9% uplift to opening valuation
- 15.5% increase in net asset value per share to 1275p (2020 1104p)
- Earnings per share of 230.5p (2020 loss 22.2p)
- Revenue profit before tax decreased by 7.4% to £3,243,000 (2020 £3,503,000)
- Total debt remained at £27,200,000; LTV 31% (2020 33%)
- Cash £5,715,000 (2020 £3,295,000)
- 10% increase in final dividend to 33p per share (2020 30p per share with an additional special dividend of 6p per share)
- 3.5% decrease in total dividend payable for 2021 to 55p per share (2020 57p per share including the special dividend of 6p per share)

Dear Shareholder,

Introduction

At the time of writing to you last year, I don't think we would have believed that 2021 would be primarily dominated by continuing to deal with the effects of the pandemic. Whilst the effects of Covid-19 continued to be felt across the world, we took a cautious approach in how we managed the portfolio, keeping a relatively low LTV, a healthy level of cash and taking no unnecessary risks. Our portfolio proved to be very resilient throughout 2021, and I am pleased to report a very solid set of results for the year.

Property portfolio

The focus of our asset management has been on warehouses and retail warehouses for several years (making up 73% of our portfolio by asset value). This has proven to be a successful strategy with a strong sector performance in 2021. Notwithstanding the volatile macro environment, we expect this to see this positive momentum continue into 2022.

We did not acquire any properties during the year and we sold one property at an increase of 9% over its 31 December 2020 valuation. Notwithstanding the ongoing pandemic, we continued to achieve a high level of rent collection for the year of 97% (2020 94%). Our gross rental revenue decreased by 2.6% (2020 4% increase), due primarily to the negative effects of CVAs and voids offset by the progress that we have made with our asset management initiatives and one-off income.

When taken together with a very positive like-for-like property revaluation of 11.1%, this led to an overall increase in net assets of 15.5%.

Dividend

The company's interim dividend was 22p, a 4.8% increase on 2020, and we are proposing a final dividend for 2021 of 33p per share taking the total dividend for 2021 to 55p per share. This represents an increase of 8% from the 2020 dividend of 51p per share (excluding the 2020 special dividend of 6p per share).

Sustainability

Highcroft has a clear purpose of providing our tenants with excellent properties in optimal locations, enabling them to succeed and our stakeholders to benefit on a long-term sustainable basis. As a board we consider climate-related risks and opportunities and over the year have evaluated how any future developments will be approached, and the most appropriate strategy for reducing our impact within the existing portfolio. We are in a process of identifying the levers that we can operate and influence to ensure the sustainability of our business.

People

As for many companies, the ongoing impacts of the Covid-19 pandemic have presented challenges to the Board, the tenants we serve, and the communities we operate in. During the year the business has continued to perform commendably, and I would like to thank my fellow directors and the employees for the continued commitment and considerable efforts over the last year.

During the year, we welcomed Anne-Marie Palmer as Company Secretary. Anne-Marie has 20 years' experience as a chartered secretary advising listed companies and as reported last year, recognising both the increase in governance and reporting requirements, we welcome her addition to the team.

Outlook

2021 was a strong year for Highcroft despite the world still being seriously affected by Covid-19. We now face new macro challenges with the tragic events in Ukraine. While there is no doubt the effects of this will be severe and long lasting, we are confident that with the cautious approach we take to managing the portfolio along with relatively low levels of gearing we can continue to deliver robust shareholder returns against a continuing volatile global backdrop.

We are planning that our AGM this year will be back to normal as an open meeting, and I look forward to meeting those of you who can make it.

Charles Butler

Chairman

28 March 2022

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The information contained within this announcement is deemed by the Company to constitute inside information stipulated under retained EU law version of the Market Abuse Regulations (EU No. 596/2014) (the "UK MAR"), which is part of UK law by virtue of the European Union (withdrawal) Act 2018 .

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	2021			2020		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gross rental revenue		5,928	-	5,928	6,084	-	6,084
Property operating expenses		(670)	-	(670)	(620)	-	(620)
Net rental income		5,258	-	5,258	5,464	-	5,464
Profit on disposal of investment property		-	250	250	-	-	-
Valuation gains on investment property		-	9,925	9,925	-	2,525	2,525
Valuation losses on investment property		-	(1,170)	(1,170)	-	(7,175)	(7,175)
Net valuation gains/(losses) on investment property		-	8,755	8,755	-	(4,650)	(4,650)
Administration expenses		(1,164)	-	(1,164)	(1,069)	-	(1,069)
Net operating profit/(loss) before net finance expense		4,094	9,005	13,099	4,395	(4,650)	(255)
Finance income		4	-	4	4	-	4
Finance expense		(855)	-	(855)	(896)	-	(896)
Net finance expense		(851)	-	(851)	(892)	-	(892)

Profit/(loss) before tax		3,243	9,005	12,248	3,503	(4,650)	(1,147)
Income tax (charge)/credit	1	(304)	-	(304)	-	-	-
Profit/(loss) for the year after tax		2,939	9,005	11,944	3,503	(4,650)	(1,147)
Total profit/(loss) and comprehensive income/(loss) for the year attributable to the owners of the parent		2,939	9,005	11,944	3,503	(4,650)	(1,147)
Basic and diluted earnings/(loss) per share				230.5p			(22.2p)

Consolidated statement of financial position

at 31 December 2021

	Note	2021	2020
		£'000	£'000
Assets			
Non-current assets			
Investment property	4	87,565	78,810
Total non-current assets		<u>87,565</u>	<u>78,810</u>
Current assets			
Trade and other receivables		2,876	1,692

Cash and cash equivalents		5,715	3,295
Assets classified as held for sale		-	3,250
Total current assets		8,591	8,237
Total assets		96,156	87,047
Liabilities			
Current liabilities			
Interest bearing loan		7,500	-
Trade and other payables		2,839	2,726
Total current liabilities		10,339	2,726
Non-current liabilities			
Interest bearing loan	6	19,700	27,200
Total non-current liabilities		19,700	27,200
Total liabilities		30,039	29,926
Net assets		66,117	57,121
Equity			
Issued share capital		1,296	1,294
Share-based payment reserve		102	43
Revaluation reserve - property		19,236	12,814
Other equity reserve		(121)	(53)
Share premium		117	51
Capital redemption reserve		95	95
Realised capital reserve		29,623	28,995
Retained earnings		15,769	13,882
Total equity attributable to the owners of the parent		66,117	57,121

Consolidated statement of changes in equity

2021

	Issued shares capital	Share-based payment reserve	Revaluation reserve-property	Other equity reserve	Share premium	Capital redemption reserve	Realised capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	1,294	43	12,814	(53)	51	95	28,995	13,882	57,121
<hr/>									
Transactions with owners:									
Issue of shares	2	-	-	(68)	66	-	-	-	-
Dividends	-	-	-	-	-	-	-	(3,007)	(3,007)
	2	-	-	(68)	66	-	-	(3,007)	(3,007)
<hr/>									
Reserve transfers:									
Non-distributable items recognised in income statement:									
Revaluation gains	-	-	8,755	-	-	-	-	(8,755)	-
Realised gains	-	-	-	-	-	-	250	(250)	-
Surplus attributable	-	-	(378)	-	-	-	378	-	-

to assets
sold in year

Change in
excess of
cost over
fair value
through
retained
earnings

	-	-	(1,955)	-	-	-	-	1,955	-
	-	-	6,422	-	-	-	628	(7,050)	-
Share award expensed	-	59	-	-	-	-	-	-	59
Total comprehen sive income for the year	-	-	-	-	-	-	-	11,944	11,944
At 31 December 2021	1,296	102	19,236	(121)	117	95	29,623	15,769	66,117

**Consolidat
ed
statement
of changes
in equity
continued**

2020

Issue d shar e capit al	Share- based payme nt reserv e	Revaluat ion reserve- property	Other equit y reser ve	Share premi um	Capital redempti on reserve	Realis ed capita l reserv e	Retain ed earnin gs	Total
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	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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 cash flows

for the year ended 31 December 2021

	2021	2020
	£'000	£'000
Operating activities		
Profit/(loss) before tax	12,248	(1,147)
Adjustments for:		
Net valuation (gains)/losses on investment property	(8,755)	4,650
Net gain on disposal of investment property	(250)	-
Share-based payment expense	59	31

Finance income	(4)	(4)
Finance expense	855	896
Operating cashflow before changes in working capital and provisions	4,153	4,426
Decrease/(increase) in trade and other receivables	391	(545)
Increase in trade and other payables	120	252
Cash generated from operations	4,664	4,133
Finance income	4	4
Finance expense	(855)	(896)
Income taxes paid	(311)	(21)
Net cashflows from operating activities	3,502	3,220
Investing activities		
Sale of non-current assets - investment property	1,925	-
Net cashflows from investing activities	1,925	-
Financing activities		
Dividends paid	(3,007)	(2,484)
Repayment of bank borrowings	-	(4,000)
New bank borrowings	-	5,000
Net cashflows from financing activities	(3,007)	(1,484)
Net increase/(decrease) in cash and cash equivalents	2,420	1,736
Cash and cash equivalents at 1 January	3,295	1,559
Cash and cash equivalents at 31 December	5,715	3,295

Notes

for the year ended 31 December 2021

1 Income tax charge/(credit)

2021

2020

	£'000	£'000
Current tax:		
On revenue profits - current year	-	8
- prior year		(8)
On write-off of part of PID pool	304	-
Income tax charge	<u>304</u>	<u>-</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2020 19%).

The differences are explained as follows:

	2021	2020
	£'000	£'000
Profit before tax	12,248	(1,147)
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019 19%)	<u>2,327</u>	<u>(218)</u>
Effect of:		
Profit not taxable as a result of REIT status	(2,327)	220
Tax due on non-payment of part of PID pool	304	-
Adjustment in respect of previous years	-	(2)
Income tax credit	<u>304</u>	<u>-</u>

2 Dividends

In 2021 the following dividends have been paid by the company:

	2021	2020
	£'000	£'000
2020 Final: 30.00p per ordinary share (2019 27.00p)	1,555	1,397

2020 Special: 6.00p per ordinary share (2019 nil)	311	-
2021 Interim: 22.00p per ordinary share (2020 21.00p)	1,141	1,087
	<u>3,007</u>	<u>2,484</u>

On 28 March 2022 the directors declared a final property income distribution for 2021 of £1,711,000, 33.00p per share, (2020 final property income distribution of £1,555,000, 30.00p per share and special property income distribution for 2020 of £311,000, 6.00p per share) payable on 7 June 2022 to shareholders registered on 22 April 2022.

3 Earnings per share

The calculation of earnings per share is based on the total profit after tax for the year of £11,944,000 (2020 loss £1,147,000) and on 5,181,317 shares (2020 5,172,465) which is the weighted average number of shares in issue during the year ended 31 December 2021. 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 £2,939,000 (2020 £3,503,000) has been calculated.

	2021	2020
	£'000	£'000
Earnings:		
Basic profit/(loss) for the year	11,944	(1,147)
Adjustments for:		
Profit on disposal of investment property	(250)	-
Net valuation (gains)/losses on investment property	(8,755)	4,650
Adjusted earnings	<u>2,939</u>	<u>3,503</u>
Per share amount:		

Earnings/(loss) per share (unadjusted)	230.5p	(22.2p)
Adjustments for:		
Profit on disposal of investment property	(4.8p)	-
Net valuation (gains)/losses on investment property	(169.0p)	89.9p
Adjusted earnings per share	56.7p	67.7p

4 Investment property

	2021	2020
	£'000	£'000
Total valuation at 1 January	82,060	86,710
Disposals	(3,250)	-
Revaluation gains/(losses)	8,755	(4,650)
Valuation at 31 December	87,565	82,060
Less property held for sale categorised as current asset	-	(3,250)
	87,565	78,810

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 2021, 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 £73,961,000 (2020 £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 valuations at 31 December 2021 and 31 December 2020 were 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.

5 Assets classified as held for sale

	2021	2020
	£'000	£'000
Investment property held for sale	-	3,250

The asset held for sale at 31 December 2020, our Andover property, was sold in August 2021.

6 Interest bearing loans

	2021	2020
	£'000	£'000
Short-term bank loans due within one year	7,500	-
Medium-term bank loans	19,700	27,200
The medium-term bank loans comprise amounts falling due as follows:		
Between one and two years	-	7,500
Between two and five years	3,400	-
Over five years	16,300	19,700
	19,700	27,200

There is an agreed facility letter in place to replace the £7,500,000 of short-term bank loans with a new medium-term bank loan upon maturity.

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 2021. The accounting policies remain unchanged.

8 Annual General Meeting

The Annual General Meeting will be held on 18 May 2022.

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 2021 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 14 April 2022 and subsequently filed at Companies House.

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