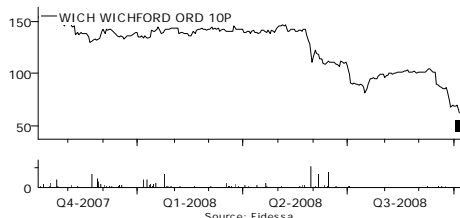


Wichford plc 53 p

Attractive dividend stock following excessive market discount

9 October 2008

Share Price: 53 p



12m High: 155

12m Low: 50

Market Cap: £70.4m

Shares in Issue: 132.8

NAV/Share: 136.4p at interims

Gearing: 68.9%

Interest Cover: 1.46x

EPIC Code: WICH

Sector: Real Estate

Market: London Full List

Joint brokers: Evolution/KBC Peel Hunt

PR: : Citigate Dewe Rogerson

Website: www.wichford.com

Description: Isle of Man-registered property investment company, with a portfolio focused on investment property in the UK and Continental European and occupied by Central and State Government bodies.

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Wichford's share price fell a further 20% on the announcement that interest rate swaps on its debt with Lehman Brothers vehicles may no longer be valid. Wichford shares have now halved in price in two months – they were trading at 100p in August.

Part of the share price fall is justified because Wichford is 'rebasin' its dividend from the 10.2p paid in f/y September 2007 to '7p to 8p'. Much of the rest appears due to fear of contamination by association.

We believe this fear is overstated for the following reasons:

- The maximum financial impact for y/e September 2008 is likely to be a reversing of the £1.8m. 'paper' profit recognised in the interim accounts as 'mark to market' of the swaps position under IFRS accountancy rules – an asset to which no investment manager gave much credence.
- We estimate the maximum financial impact for future financial years to be £3.9m a year, or c. 1p a share, until 2012. If interest rates rise before any new swaps are put in place, this sum will grow; if interest rates fall, which is highly likely, the sum will shrink or turn positive.
- The security trustee and agent's functions of the swaps have always been undertaken by an outside agent.
- The swap counterparty's guarantor is in Chapter 11; not only is this a very much gentler regime than Administration, it affects the bondholders in the securitisation vehicles rather than Wichford.
- There were no covenants of significance attached to these loans, so the risk of Wichford being forced to repay these loans must be slim.

Overleaf we provide an overview of the very complex network involved and an 'audit trail' of the situation as we understand it.

The dividend yield will prove hugely interesting to funds requiring income, and is in our opinion a great deal safer than the market is assuming. There is also scope for significant capital gain when the market realises this.

Y/E	NAV	Declared PBT	Adjusted PBT	Trading EPS	Dividend	Yield
September	£m	£m	£m	p.	p.	%
2006A	217	+52.9	8.0	8.1	9.5	17.9%
2007A	208	-9.6	11.6	9.7	10.2	19.2%
2008E	121	+96.1	12.0	9.0	7.0	13.2%
2009E	132	+31.0	12.1	9.1	7.5	14.2%

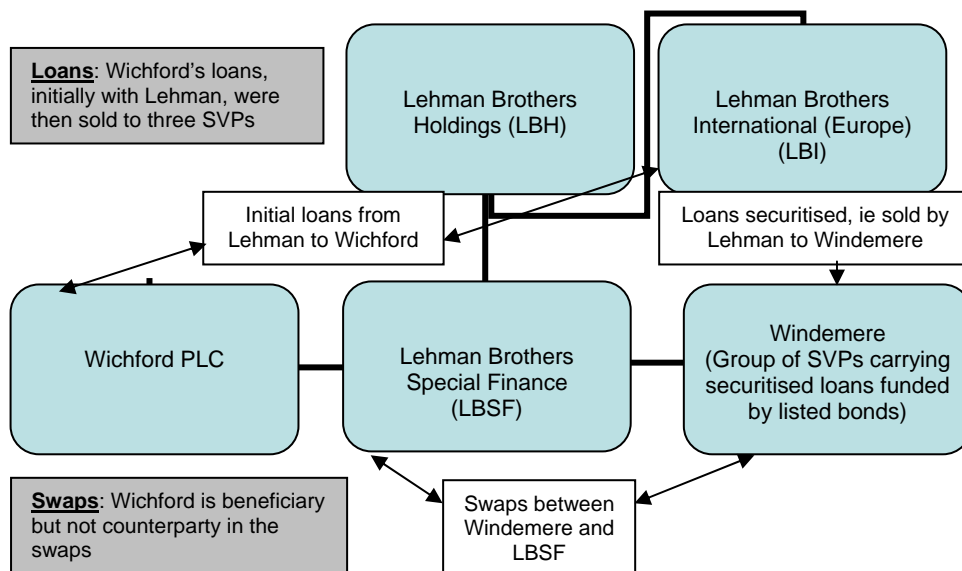
The securitisation setting involving Lehman

Structure of the loans and securitisation agreements

Wichford had been granted three loans totaling £344m by Lehman Brothers which were aimed at funding designated properties owned by the Group. These loans have been sold by Lehman Brothers to three securitisation companies, i.e.: Special Purpose Vehicles, set up by Lehman Brothers and part of a group of SVPs known as 'Windemere'.

(Windemere consists of 14 different SVP, three of which include loans to Wichford - 'Windemere 8', 'Windemere 11' and 'Windemere 14'. The Wichford loans are only part of the assets of any of the three Windemere companies).

Interest rate swaps were part of these arrangements and aimed at hedging floating rate risk for Wichford. Lehman Bros was the counterparty in these swaps through a subsidiary, LBSF (Lehman Brothers Special Finance).



Windemere's assets include the £344m loans made by Lehman to Wichford then sold to it by Lehman, and these assets are predominantly funded by bonds. These bonds are listed on the Dublin Stock Exchange and their maturities are no less than the maturity of Wichford's loans, that is: 2012.

Windemere's main stakeholders are its bondholders and its management decisions are normally taken by its board of trustees. Therefore, should there be any conflict of interests between Wichford and Windemere, such conflict would be resolved, on Windemere's part, by its trustees and possibly with an intervention of its bondholders.

The trustee and agent of the SVPs under the loan agreements is Lehman Brothers International (Europe) (LBI).

Potential impact of Lehman's bankruptcy

This impact is limited to interest rates differences on hedges, not on the main part of the loan agreements. These agreements remain in place for their main part and the bankruptcy of Lehman does not constitute an event of default on the principal amounts involved. Importantly, the absence of any loan-to-value covenants initially agreed between Wichford and Lehman remains. The interest rates differences of the swaps are in essence:

The variable interests due to Windemere's bondholders, that is: $((LIBOR+0.75\%) \times £344m)$ (with a LIBOR rate currently standing at c. 6%).

Less the fixed interests due by Wichford under the swaps, that is: (an agreed fixed rate of

Wichford PLC

30 September 2008

4.87% +0.75%) x £344m. That is, over the life of the hedges.
 The resulting amount is c.£3.9m per year (6% -4.87%x£344m), or c.1p per share.

Any impact on Wichford would be the difference between the old swap rates for the fixed leg of the swaps (4.87%) and the new swap rates. We can assume that the new swap rate would be close to the current LIBOR rate of c. 6%.

Why a £1.8m provision in Wichford's accounts for FYE September 2008?

In the hedge arrangements made prior to Lehman's bankruptcy, interest rate differences were leading to a gain for Wichford and a loss for Lehman as long as LIBOR remained above 4.87%.

Accordingly, Wichford had included an asset of £1.8m in its accounts as at 31 March 2008, the fair value of these swaps at that date.

Wichford might not be affected at all by Lehman's bankruptcy

Had the situation been very simple, with Wichford dealing directly with Lehman Brothers and with Lehman Brothers being purely and simply bankrupt, Wichford would need to reset new swaps to hedge its interest rate risk related to the £344m loans. However, this is not the case, strictly speaking. Resetting the swaps might not be required. The situation might therefore evolve positively, for the following reasons:

- Interest rate differences were due to be paid to Windemere not directly by Lehman Brothers but by one of its subsidiaries, Lehman Brothers Special Finance (LBSF), and LBSF has not been put into administration.
- Although its guarantor, Lehman Brothers Holdings (LBH), has been put under Chapter 11 protection, this regime is a transitory regime meant to allow companies to get back to better fortune, if at possible.
- Although another entity involved, Lehman Brothers International (Europe) (LBI), which is the security trustee and agent under the loan agreements, has been put into administration, its functions have been undertaken by Hatfield Philips on its behalf since the inception of the securitisation transactions.

The Wichford management has decided to watch the development of the situation prior to taking any action.

Management	Major Shareholders
Non-Executive Chairman: Philippe de Nicolay Property advisory and manager services: -WPML (Wichford Property Management Limited) - BCM (Brown Cooper Marples Limited). WPML's executive chairman: James Hambro BCM's director and co-founder: Philip Cooper	The REAL Co. (Jersey) Holdings Ltd 10.0% Jupiter Asset Management Limited 9.4% Ciref Limited 9.2% AXA S.A. 7.8% Ciref Limited: 7.0% Rathbone Brothers PLC 5.9% New Star Asset Management Limited 5.7% Rensburg Fund Management Limite 4.8% F&C Asset Management PLC 4.7% BlackRock, Inc. 4.6% J O Hambro Capital Management Limited 4.5% Legal & General Group PLC 4.1% J O Hambro Investment Management Ltd 3.9%
Key Dates	Key Milestones
Next AGM: January 2009 Dividend Payment: February 2009 Next Interim Results: August 2009 Next Full Year Results: December 2009	September 2003: Wichford set up with a portfolio focused on properties with government occupiers. 2004: Wichford registered in the Isle of Man. Legal structure reorganised. Stock listed on AIM. 2007/8: start of European expansion. Properties acquired in France, Germany, the Netherlands and the Benelux. December 2007: Stock transferred to Main Market.

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