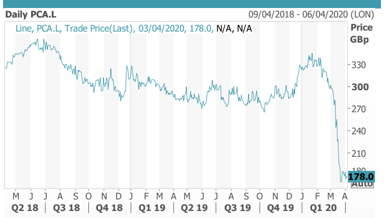
6 April 2020

HARDMAN&CO.

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	180
12m High (p)	342
12m Low (p)	175
Shares (m)	45.9
Mkt Cap (£m)	82.6
EV (£m)	175.0
Market	Main, LSE

Description

Palace Capital (PCA) is a real estate investor, diversified by sector (office, industrial) and location, excluding London and with minimal exposure to retail. There is an emphasis on city-centre locations. The York development site comprises 6% of assets.

Company information

Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester
Executive director	Richard Starr

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Key shareholders

AXA	7.7%
Miton	7.4%
J.O.Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Jun'20	Final results
Jul'20	AGM

Analyst

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PALACE CAPITAL

Trading update and COVID-related dividend cut

FY20 results are due to be reported in June. PCA's 2 April trading update stated FY20 results to be broadly in line with previous estimates. Loan-to-value (LTV) at 30 September 2019 stood at 34%; we expect this to increase to 37% as at March year-end, allowing for the drawdown at the York Hudson Quarter (HQ) development. With robust finances, PCA can weather COVID-related storms, including passing this quarter's dividend. A rent shortfall in FY21 looks likely. None of the diverse positive characteristics of the portfolio are negated. Indeed, we see scope for EPRA earnings to recover to the 19p per share historical dividend level once the HQ development has completed and funds have been redeployed into income-accretive acquisitions.

- **FY20 results:** 1H20 was in line with expectations. The 2 April trading update stated that FY20 will be announced broadly in line. However, quarter day rents for most real estate companies have proven a challenge. We explore the current trading, resilience versus risks and the strategy of the REIT in this document.
- **Robust balance sheet:** Year-end debt seems likely to remain at a conservative level below 40% LTV. Gross cash equates to around nine months' rent. Covenant strain appears entirely manageable. On average, rents would fall 40% before problems are triggered. Minor individual adjustments might be needed in some scenarios.
- **30% of this quarter's rents are late:** With over 200 tenants, the strain of COVID-19 is impossible to avoid in the current year. In this report, we set out our rationale for expecting strong recovery immediately the COVID-19 shock dissipates. This includes a route map to 19p EPRA EPS, even if rents reduce slightly.
- **The valuation reflects short-term problems:** We do not expect the balance sheet to have difficulties weathering storms, even if lasting two quarters. Additionally, in our view, the ability to boost ongoing EPRA EPS post completion of the HQ development illustrates strong valuation upside potential.
- **Risks and upside:** As we wrote in last year's research, "the normal risks of real estate apply." COVID-19 has fully demonstrated this, unfortunately. PCA has created a solid craft in which to navigate troubled waters. Once the trouble subsides, the REIT will exit intact and with its strategy well placed to benefit from strong and progressive income.

Financial summary and valuation

Year-end Mar (£m)	FY17	FY18	FY19	FY20E	FY21E
Net income *	12.2	14.9	16.4	19.0	
Finance cost	-3.0	-3.4	-4.6	-4.0	
Declared profit	12.6	13.3	6.4	3.6	
EPRA PBT (adj. pre-reval'n.)	6.4	7.5	8.6	11.0	
EPS reported (diluted, p)	36.5	35.8	11.3	7.1	Suspended
EPRA EPS (p)**	21.2	18.7	16.5	23.2	
DPS (p)	18.5	19.0	19.0	19.0	
Net cash/debt	-68.6	-82.4	-96.5	-108.8	
Dividend yield	10.3	10.6	10.6	10.6	
Price/EPRA NAV	40.6%	43.5%	44.3%	45.3%	
EPRA NAV (p)	443.0	414.8	406.6	396.8	
LTV (loan-to-value)	37.3%	29.9%	33.8%	37.2%	

** Post direct costs ** Diluted, pre share-based payments*
Source: Hardman & Co Research

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Investment case

Cash and the unused revolving credit facility totalled £19.7m at end-March. This is slightly in excess of 12 months' income. No bank or other debt is due to mature within the next two years. The HQ financing is ringfenced and all securely in place with a fixed price construction contract. Strong sales – one per week since launch – and lettings have been achieved to date.

Debt facilities have 225%-250% interest cover covenants, which would on average only be breached if rents fell by 40%. On an asset-by-asset basis, there are a variety of LTV covenants. Significant value falls would take place before any loan advances would have to begin to see PCA reducing loans on the particular asset. The large Sol Leisure asset, we estimate, has the most exposure in the group to tenants such as gyms and we understand this is cross-collateralised with two non-leisure assets.

First calendar quarter sees 30% of rent not paid by due date

Finances are strong but COVID has hit rental income

As outlined above, the financing base is secure, therefore. The assets are exposed to economic realities and thus the most recent rent quarter has seen an element (which we believe to be very roughly 10% of the total) deferred principally on a monthly (as opposed to quarterly) pay basis. In addition, 30% of the remainder is outstanding as at rent-due date. We anticipate a portion of this is in the process of being waived or deferred and the rest should be collected in due course.

Progress at the York site, Hudson Quarter (HQ)

We emphasise the importance of the HQ scheme in central York

The site launch took place in June 2019 for 127 apartments and 39,000 sq. ft. of highest quality office space. Sales have progressed at one apartment per week and a record £25 sq. ft. rent was agreed on part of the office space.

Residential prices achieved are a little above original budget and the office lease was at a record for the strong location, which is inside York's city walls. There are no similar competing residential sites.

We had estimated a £10m scheme profit and, although this figure is likely to be trimmed, 1) we would see it as almost inconceivable that this development would make a loss, and 2) there is every chance the profit outcome could closely approach £10m.

We had anticipated total HQ profits of ca.£10m. We estimate in the broad region of £3m has been made but not yet booked as these are residential forward sales. We estimate no realistic circumstances where the remainder of the site's profits would fall to anywhere near breakeven. It is noteworthy that the good 2019 progress was made in a difficult marketing environment, so 2020 stands every chance of being an equally difficult one but not one materially worse.

Albeit different circumstances, but the housing market was strong in the year post the 1987 stock market crash and also post the 2000 dotcom crash.

The near £6m peak capital employed will then unwind and be deployable on new schemes or be utilised to reduce REIT LTV to low levels. HQ provides profitability and significant cash.

HQ benefits group prospects not only through its latent profits but also through subsequent reinvesting the significant capital being employed. At peak, nearly £60m capital will be employed, comprising the book cost of the site and total construction costs. Given the COVID pandemic, this reinvestment could be to pay down debt or to invest in commercial assets, enhancing income. Even if, for a short number of years, overall commercial portfolio income stagnates, the REIT would see profit (EPRA EPS) rises post HQ completion, which is anticipated early in FY22.

Successful delivery of HQ is well on track, but COVID has brought an inevitable tempering of projections. We note it already has made profits, which have been secured but not booked until sales complete.

Good property prospects

The right sectors for incremental outperformance…

- The 50% exposure to regional offices – each with a business plan and most having scope to enhance the tenant base – gives scope for modest outperformance. We refer to our expectations that the regional office sector will (modestly) outperform MSCI all-property indices and that PCA can continue to add value incrementally via individual asset management programmes.
- The 14.5% exposure to leisure and minimal retail (bar Wickes and Aldi) shopping centres – in or out of town – is a matter of pre-designed policy.
- Other sectors include warehouses/industrials in good locations – a sector which should prove robust.

…but COVID impact inevitably leads to rent reductions

Without doubt, calendar 2020 will prove tough – hence the precautionary dividend cut. However, the assets PCA has selected are strategically and tactically sound. Some may prove harder work than anticipated, but, overall, the rental growth should modestly beat the market for the reasons given above.

It will also reduce the speed of recycling capital

One strategic dent resulting from the COVID pandemic is that PCA will have less quantum to recycle capital. A major plank to its performance strategy is to enhance assets and their tenant base. This will still take place, but it could take longer. Furthermore, HQ will still make profits on the two thirds remaining to sell. Nonetheless, COVID will slow this progress and, at the very least, will not enhance the profits from HQ.

Despite all this, FY22 onwards has every chance of achieving EPRA EPS equal to or above the historical 19p dividend per share

In summary, even were income from office investments to track sideways for a couple of years and leisure to fall a little versus 2019 levels, investing the capital profitably cycling back from HQ should mean that HQ would take REIT EPRA EPS back to above the 19p a share historical high dividend level. At this stage, we suspend detailed estimates. The qualities of the assets, the balance sheet and the significant benefits pending from HQ all lead to significant confidence in the prospects. Profits and dividends are affected by COVID, but not blown off course.

Clear map back towards fully covered dividends

PCA is positioned such that it can rapidly resume its strategy post this unwelcome but manageable lockdown. The strategy is to optimise real estate assets, which combine strong tenants, good locations and the scope to add value (by improving the asset and hence tenant-desirability). This then gives the opportunity to recycle capital. Location is important and many are in the north of England and, to some extent, other non-London locations. Net initial yields are above MSCI all-property. The point of this is to pay a strong dividend and combine this with an element of NAV growth.

The situation brings difficulties to many tenants and thus it is an important positive that all larger tenants (including in the 14.5% of the portfolio that is in the leisure sector) are good covenants. Clearly, the extent of the lockdown is an unknown. What is known is that there was 70% cash collection of the most recent (end-March) quarterly rent due date – allowing for agreed changes to payment timings, as announced on 2 April.

Good asset positioning and financial strength

The sector positioning is helpful. The tenant base is broadly robust but some smaller ones (possibly in leisure) are in sectors at the eye of the storm. Clearly, the end-June 2020 payday will also be a difficult one across the sector.

The financing is robust. £14.7m (gross) cash was held post the end-March payments. There is also a revolving credit facility. All HQ development finance has been fully in place for a while. We expect possible minor individual asset loan strengthening may be needed unless end-June goes well. As per the statement, LTV at 34% is not at all onerous. On average, rents would have to fall by 40% for ICR loan covenant "curing" to take place.

We touch a little more on the finances in the Financials section. We outline a little more detail on the asset segments in the points following.

The strategy is strong, well executed and well financed. Thus, while COVID brings headwinds, they will be overcome and a 19p, fully covered dividend remains in view.

- The assets – both commercial and residential – offer the raw material for PCA to achieve consistently fully covered 19p per share dividends in the near future. FY21 will be difficult but surmountable and long-term damage has every chance of proving to be relatively modest.
- The predominance of offices in central locations should mean the current pain is of a duration limited to the pandemic situation. While not all smaller office tenants are "bullet proof", all larger ones are excellent covenants. If, in the long run, occupiers include working from home, time will tell. This would lead to office asset differentiation, though. Central city (or very large town) locations set right within vibrant communities are exactly what PCA owns and it is these that will prosper.
- The deliberately minimal exposure to retail is important when viewing the "bounce back". PCA has no shopping centres. Its retail portfolio consists of Wickes and Aldi with a very modest element of shops in mixed-use developments, using them as part of the footfall mix: we are back on the vibrant communities policy.

- There is exposure (14.5% of the portfolio) to leisure via two large assets: Halifax and Northampton. Halifax is near fully let with well more than half its value in Vue cinema, Mitchells and Butlers and other well-known budget hotels and larger restaurant chains. Vue ticket prices, at typically under £10, drive excellent footfall. Sol Northampton is being progressively repositioned whilst occupied. The majority is occupied in fitness, wellbeing as well as cinema and budget hotel as a destination attraction. We note the loan onto this asset is collateralized on three assets in total.

The assets are well let, but the successful policy is to maximise value, not maximise this year's income

- The overwhelming balance of the portfolio is in strong asset classes in central locations.

The portfolio policy is to maximise value, not maximise current-year rents. A good example might be the small conversion redevelopment at Weybridge High Street. Others include larger offices in central Manchester and Leeds where progressive refurbishment means assets are good on certain floors while the quality of the asset and its tenant-desirability enhances. We see this as a clear opportunity to add value, albeit bringing re-letting risk. That risk is granular and is only going to raise occupancy. Particularly, in Manchester, such repositioning has driven rents up approaching 50%. Levels achieved are still below near-neighbour comparables as the enhanced building progressively "matures". We see these mini-/medium-sized granular asset-management operations as a positive. In volatile and uncertain markets, they do bring more worry and work than "stabilised" assets. This is worth it, however, for the upside to rents and to net initial yield valuations. Many of these are in the 7%-8% range in modern centrally located assets.

HQ is important, one third sold and has performed ahead of budget to date

We consider the HQ development asset to be a gem. We have outlined more details in previous research so here is a summary of the current position.

Launched in June 2019, by November, 28 apartments were sold or under offer. As of now, 45 are sold or under offer. Selling more than one a week at a steady pace is impressive. Construction continues – with appropriate health and safety – but no doubt at a slower pace. Physical completion was due in January 2021. This will no doubt slip slightly, which could push completion – and thus cash and profit – into FY22. Originally, we had envisaged FY22 completion, so our estimate having been brought forward is back to where it started. Of the 45, 28 are exchanged. Of those, two exchanged in the past week. Two that were under offer have seen the buyer withdraw.

These sales rates are excellent and achievements are above budget. With two thirds still to go (they are of course released in batches) and viewings now halted (but open for enquiries and virtual tours), we are being cautious and cutting our estimates. Our estimates were for the whole development – which includes some offices – to make £10m in profits. We are still confident – barring a collapse (e.g. 20% price falls) – that the last two thirds of completions will generate a profit. This is on top of the profit we estimate from the first third of ca.£3m (Hardman & Co estimate). Consensus seems that the housing market's strong price bounce post-election may unwind, but it is easy to forget how subdued the housing market has been ever since just before the HQ launch. It sells well at above budget, even in difficult markets.

Risks and mitigation – sector exposure

COVID pandemic problems are the main current risk. This has led to cashflow delays – smaller or larger – at effectively all tenants. We have discussed this in a number of aspects of this research, so all we point to here is our twofold strong expectation. First, covenant tests are unlikely to be enforced to the letter across the sector this year. Secondly, a 40% rent fall on average would be required to cause material breaches.

PCA's exposure to offices stands at near-50% (MSCI index weight 29.5%).

No individual tenant exceeds 6% of the total. The largest retail tenants comprise Wickes, Bravissimo, Aldi, Booker and Tesco. No shopping centres are owned.

We consider all of PCA's major retail tenants to be solid. In terms of background, Bravissimo (an office tenant, albeit with a retail business) currently has 29 stores across the UK, and also sells via mail order, online and via a US website.

LTV ratios stood at 34% at the end of fiscal 2019. We believe the broad target LTV is 35%-40%, but assuming York's HQ proceeds to plan with a physical build completion in spring 2021, the LTV on completion and exit of the York development will be under 30%. During the development of HQ, LTV is expected to rise to manageable levels (40%), and it will ultimately reduce, through the value uplift and residential sales.

All real estate sector investment brings location risk. PCA mitigates this. It excludes London and chooses central, accessible locations with good underlying demand. We view these as assets with robust residual values, not simply good leases.

The assets owned offer value-for-money to occupiers and, as such, there is often tight emphasis by the tenant on the rental levels. Mitigating this is the fact that the rent level will be a more modest part of total operating costs (be it offices or leisure, etc.) than would be the case for prime assets.

Assets purchased sometimes require areas of refurbishment (e.g. reception area). This is the nature of the value-adding asset management policy. At times of market disruption, as per 2020, "freshening" of assets is particularly important. The process itself is at times disruptive, so a careful balance has to be kept as well as a close eye on cash management.

In the next two years, no bank facilities will mature.

A number of leases are of short duration. The overall WAULT – weighted average unexpired lease term – is not particularly relevant, as this is a granular investment portfolio. Assets that have reversionary potential, indeed, by definition, benefit from shorter WAULTs. PCA's WAULT happens to be 5.2 years to tenant break option (at period-end). Leases coming to an end in 2020, however, may well prove a risk on timing. As a matter of negotiation, FY21 may well see voids drift slightly up.

Leisure might be considered a sector under pressure, and here the leases are mostly of long duration. The Northampton asset, in particular, has asset enhancement programme plans, to widen the catchment area. Its WAULT is longer than group average. Notably, in August 2019, a 15-year lease was signed by Gravity Fitness for 23,500 sq. ft. Gravity Fitness, which is based in Castleford, Yorkshire, is an expanding leisure operator that provides indoor family activities such as trampolining, bowling, indoor golf and wall climbing. It has nine other locations across the UK, including Bluewater in Kent, Castleford, Corby, Edinburgh, Glasgow, Hull, Maidstone, Milton Keynes and Norwich. It follows the opening in June 2019 of Soo Yoga by former England Rugby International, Ben Cohen MBE and Kristina Rihanoff, the world finalist professional ballroom dancer who appeared on the BBC's Strictly Come Dancing, who signed a 15-year lease at the scheme in February. This latest letting represents 53% of the total vacant space.

Dividend cover has reduced and the COVID situation has led to the announced 4.75p dividend for payment this week to be cancelled. Several REITs have made similar announcements. Importantly, income step-uplift will be achieved upon completion of the HQ development.

Financial performance and estimates

Revenue account							
Year-end Mar (£m)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Rental, other income	8.64	14.59	14.27	16.73	18.75	20.80	
Direct property costs	-1.20	-1.62	-2.06	-1.82	-2.32	-1.85	
Net income	7.44	12.97	12.21	14.91	16.43	18.95	
Administrative expenses	-1.44	-2.05	-2.91	-4.18	-4.08	-4.00	
EPRA operating profit	6.00	10.92	9.30	10.73	12.35	14.95	
Property revaluation	9.77	3.62	3.10	5.74	-0.89	-6.70	
Profit on disposal, transaction costs	-0.46	-0.52	3.19	0.27	-0.36	0.00	
Share based payments	-0.11	-0.11	-0.24	-0.17	-0.33	-0.20	
Other income/costs	0.00	0.00	0.00	0.00	0.00	0.00	
Operating profit	15.20	13.91	15.35	16.57	10.77	8.05	
Finance	-1.40	-2.26	-3.01	-3.43	-3.74	-4.00	
EPRA PBT (pre-revaluation, etc.)	4.60	8.66	6.45	7.30	8.61	10.95	**Suspended**
Financial derivatives: change in fair value	0.00	0.00	0.00	0.00	-0.93	-0.70	
PBT, as declared (pre share-based)	13.91	11.76	12.58	13.31	6.43	3.55	
Tax	0.00	-0.95	-3.19	-0.77	-1.26	-0.30	
Deferred tax revaluations, capital allowances	0.10	0.00	2.20	0.00	0.00	0.00	
EPRA PAT	4.70	7.71	5.46	6.53	7.35	10.65	
EPRA EPS (p) (diluted)	26.87	31.32	21.21	18.67	16.54	23.20	
EPRA EPS (p) adj. post share-based payments	26.24	30.87	20.28	18.18	15.82	22.77	
EPRA plus cash profit on disposals: EPS (p)*	24.19	29.44	31.70	19.34	15.84	23.20	
EPS (p) (diluted) reported	80.00	43.90	36.50	35.85	11.26	7.08	
DPS (p)	13.00	16.00	18.50	19.00	19.00	19.00	
Average shares issue (m)	17.49	24.62	25.74	34.98	45.90	45.90	
Year-end shares issue (m)	20.23	25.78	25.23	45.80	45.90	45.90	

All EPS figures are on diluted shares

** This figure is a Hardman & Co calculation and assumes the same tax rate on disposals as on the rest of the business – which does not necessarily reflect actual tax splits. This figure also is stated pre share-based payments*

Source: Palace Capital accounts; Hardman & Co Research estimates

The company stated in its 2 April update that FY20 should prove to be broadly in line with expectations bar the valuation may have a COVID-related outlook "marker/comment" from the external valuer. We also would highlight, with regard to 1H20, the beneficial effect of an early lease surrender. This equated to 6.2p added to EPRA EPS and is of course by definition a one-off. The voided commercial property was sold shortly after.

We have suspended forecasts, but would make three important points.

Finances – balance sheet and cashflow

On 2 April, PCA stated its financial status as holding £14.7m cash in the bank. This gives plenty of ammunition not only for this and coming years, but it also covers off the possibility of FY20 seeing a limited number of collateralised loans being paid down modestly. Our interest is drawn to the Sol Leisure asset (solely by the nature of the sector). As we have mentioned, this is cross-collateralized with two other non-leisure assets: a positive.

As a point of note, we had formerly estimated higher debt and an LTV of 37.2%. Our balance sheet table, below, does not comprise the new lower figure as we will review numbers formally when the results are announced in June.

Finance for HQ is ringfenced and it will generate significant cash in FY22 (start FY22, we estimate). The development comprises 127 apartments and 39,000 sq. ft. of office space with parking. 4,500 sq. ft. has been let at £25/foot. (a record rent for the location) to a leading law firm. Our estimate is that, some 12 months from now, with significant sales already booked, this cash generation will begin when construction finishes. We understand that peak capital employed approaches £60m. The construction completion was due in January 2021 and delays are specifically COVID-related. Work on site continues – following all guidelines.

FY21E and FY22E

Pending the announcement of the full-year 2020, in June, we have suspended estimates. We assumed peak intra-year cash outflow on HQ of £14m. This would take it to physical completion. We hope this will remain the case, but fear a sub-£0.5m slippage due to COVID as regards rolled-up finance. We understand construction is robustly fixed-price, but will watch for an update on that in June.

For FY21E, we had looked to a £2.5m revaluation for the commercial assets at HQ. We are confident that they will value on completion at a premium to cost. The location, design, initial lease agreed at £25 sq. ft. all point to a market needing to fall significantly (e.g. ca.20% in asset valuations) before valuing-up at beneath cost. PCA may indeed choose to retain this asset as an investment and would – at that point – be in cash from the residential sales.

The market prospects

At this early stage, prognosis is supposition. The facts are that non-London offices have been (and remain) one of the very few sectors to have seen a net reduction in physical supply in the past five years. “Permitted development" conversion to residential has seen to that. Rental growth in this sector has only been modestly positive. It may be that confidence is dented for a while by COVID. This is all the more the case for leisure. This adds up to a scenario where PCA has exactly the right assets (centrally located, non-London and offering strong value-for-money both in absolute terms and compared with nearby comparables).

The WAULT is about five years, but leases come up for renewal all the time. Leases coming for renewal in FY21 will make up a series of interesting negotiations and the calibration of plausible outcomes for these is best left until June this year.

Our view is that calendar 2021 office rental negotiations will now see rents move sideways versus 2019. Uncertainty over Brexit was extreme in 2019. COVID apart, the government has stated a willingness to invest in infrastructure in the regions, including the north of England. We entered the pandemic period with fairly limited supply.

Balance sheet

Balance sheet							
@ 31 March (£m)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Investment properties	103.0	174.5	183.9	253.9	273.4	292.7	
Long-term liabilities (deferred tax)	1.5	1.2	-2.1	-6.6	-5.6	0.0	
Long-term debt	-36.6	-71.8	-77.7	-98.8	-119.4	-123.5	
Net current assets, excluding financial	0.3	-3.5	-3.7	-3.3	-2.7	-3.0	
Assets held for sale	0.0	0.0	0.0	21.7	11.7	0.0	
Cash, deposits, short-term debt	11.9	6.3	9.1	16.3	22.9	14.7	**Suspended**
Net cash (debt/finance lease)	-24.7	-65.4	-68.6	-82.4	-96.5	-108.8	
Net assets (NNNAV)	80.0	106.8	109.6	183.3	180.3	180.9*	
EPRA net assets	80.0	106.8	111.8	190.0	187.1	182.1*	
NAV/share (p)	395.6	414.3	434.2	400.2	392.8	394.2*	
EPRA NAV/share (p)	395.6	414.3	443.0	414.8	406.6	396.8*	
LTV	24.0%	37.5%	37.3%	29.9%	33.8%	37.2%**	

** subject to valuer outlook commentary*

*** Palace Capital has stated LTV of 34%, which is an encouraging figure being lower than our estimate (above) of 37.2%*

Source: Palace Capital accounts; Hardman & Co Research estimates

Potential, deferred corporation tax liabilities on capital gains have been extinguished following the conversion to REIT regime status.

Cashflow

Cashflow							
Year-end Mar (£m)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Cash from operations	4.4	12.3	10.3	9.9	13.6	15.0	
Finance	-1.6	-3.4	-2.5	-2.7	-4.6	-4.0	
Tax	0.0	-0.2	-1.1	-0.4	-2.0	-2.0	
Net cash flow from op. activities	2.8	8.7	6.7	6.8	6.9	9.0	
Acquisitions/disposals/lease break premiums	-0.4	-48.4	1.2	-65.0	-4.6	13.0	
Refurbishment (capitalised)	-2.5	-1.2	-4.6	-2.8	-3.0	-5.5	
Major development (Hudson)	0.0	0.0	0.0	0.0	-1.9	-20.0	**Suspended**
Free cashflow operation and investment	-0.1	-40.9	3.4	-60.9	-2.6	-3.6	
Share issue	19.7	19.1	-2.2	67.7	0.0	0.0	
Shares to fund asset purchases	-29.0	-15.7	0.2	-13.7	0.0	0.0	
Dividends	-1.8	-3.2	-4.6	-6.7	-8.7	-8.7	
Other	0.0	0.0	0.0	0.0	-2.8	0.0	
Net cash change	-11.2	-40.7	-3.3	-13.7	-14.1	-12.3	
Net financial position	-24.7	-65.4	-68.6	-82.4	-96.5	-108.8	

Source: Palace Capital accounts; Hardman & Co Research estimates

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