

Specialist Inv Prop

Half-year Report

RNS Number : 9106F

Specialist Investment Properties PLC

02 August 2016

2 August 2016

Specialist Investment Properties Plc

("SIPP", the "Group", or the "Company")

Interim results for the six months ended 30 June 2016

Highlights

- SIPP has started implementing its new strategy of investing in properties in the social care sector generating attractive yields;
- An initial equity fund-raising of £2.1m completed in February 2016;
- Five properties acquired before 30 June 2016 for a total cost of £1.6m, a further one following the period end;
- Initial gross rental yield of portfolio to date is 9.1% p.a.;
- All completed and pipeline acquisitions are in the social care sector, which offers high yields and rents indirectly funded by the public purse, making them defensive investments with good prospects of growth;

- Loan facilities were put in place which, with the initial equity, gave finance for property acquisitions of up to c£6.5m;
- The Board has approved in principle further purchases for which exclusivity agreements have been agreed which would commit all of SIPP's remaining available funding;
- Further acquisitions beyond the resources available to the Company at the period end have been identified and additional borrowing facilities of £5.7m have therefore been agreed to enable these to be funded pending a further equity fund-raising.

John Le Poidevin, Director of SIPP, said:

"Having established a solid platform for executing its initial investment strategy, the Board believes that the Company has made very good progress to date. Completing the pipeline it has in legal process and the additional deals identified will transform SIPP's outlook and make it a high yielding investment for its shareholders with both strong defensive characteristics and good prospects for capital growth".

For further information:

Specialist Investment Properties plc

Lynn Bruce

+44 (0) 1481 724222

Puma Investment Management Limited (Investment Adviser to the Company)

David Kaye

+44 (0) 20 7408 4050

Allenby Capital Limited (Nomad and Broker to the Company)

David Worlidge / James Thomas / Liz Kirchner

+44 (0) 20 3328 5656

Notes to Editors

The Company's shares are admitted to trading on AIM and it is registered in the Isle of Man with company number 111066C.

In September 2015 the Company adopted a new investing policy to become an investment property company acquiring and holding freehold properties (and, in rare cases, long lease-hold properties) in specialised sectors of the property market. The initial focus is investing in residential properties to accommodate children and young people requiring extensive support from social services, and purpose-built homes for adults with learning difficulties requiring support from carers (for example adults with autism). More recently the Company is considering investment in residential properties that provide short term accommodation to local authorities to meet their obligations. The new Investing Policy for the Company also allows it to invest in other specialist areas such as wedding and conference centres, other leisure facilities and, if sufficiently non-mainstream, residential or commercial property.

Introduction

We take pleasure in reporting our first set of interim results since the Company began to implement its new strategy. We are pleased to report very good progress in building a portfolio of social care properties, a sector offering high yields with rents supported by the public purse. This should enable us to offer our shareholders a sustainable income stream and prospects of capital growth.

Financial Results

Following the adoption of the Company's new strategy, SIPP conducted a placing and open offer which raised £2.1m before costs on 23 February 2016.

The Company made its first acquisitions of two properties on 1 March 2016 and a further three properties were acquired later in the period. As a result, the revenue for the Company for the six months ended 30 June 2016 does not give a steady state picture. Total annualised rent for the six properties now held is £184,500.

As a consequence of the limited amount of time that the properties acquired have been held for and the low yield on cash balances held for property purchases in the pipeline, the Company incurred a loss before and after taxation of £57,000 for the six months to 30 June 2016. The Company's balance sheet shows net assets of £2.3m, of which some £1.7m was held in cash at the balance sheet date. Borrowings taken out to fund property purchases were £1.0m at 30 June 2016.

The Company held £1.7m of investment properties at 30 June 2016, consisting of four former residential properties operating as children's homes and one as a supported living home. These are leased to care operators on long term full repairing and insuring leases with inflation adjustment for rent over the life of the lease.

Property Acquisitions

The Company acquired five properties in the period between completing its fundraising and 30 June 2016. It acquired a sixth property on 8 July 2016. All of the properties are let on full repairing and insuring leases with a term of 25 years. Rent increases are indexed to inflation.

Two of the properties, both acquired on 1 March 2016, are in the North West of England, one in the Manchester area and one in Rochdale. The other four properties are in the West Midlands, mostly in the suburbs of Birmingham.

The following table gives details of the purchase prices and initial yields:

Property Acquisitions to Date

	Purchase price	Annual Rent	Initial gross rental yield on purchase
	£000s	£000s	%
Acquired by 30 June 2016			
4 children's homes and 1 supported living home	1,503	147	9.7
Acquired in July 2016			
1 children's home	385	38	9.9
Total purchases to date	1,888	185	9.8

The initial gross rental yield for the six properties on purchase costs after taking account of stamp duty, legal costs and fees is 9.1% p.a.

Property Acquisitions Pipeline

The Company's Investment Adviser, Puma Investment Management Limited ("Puma Investments"), has identified a number of properties for acquisition which the Board has approved for purchase subject to satisfactory due diligence. Exclusivity arrangements have been entered into with the vendors and the acquisitions are now in legal process.

These potential acquisitions are mostly of larger buildings divided into individual flats primarily for those with physical or mental difficulties. Some are completed, others are in construction. The intention is to acquire these properties with a long term full repairing and insuring lease in place to a care operator or housing association. If the potential acquisitions in the pipeline are all acquired, it would commit the entire

residual funding currently available to the Company after allowing for a modest working capital buffer.

The Investment Adviser has also identified further acquisitions which are available to be made but which would require more finance than the Company currently has available. The Board has discussed these opportunities and considers that it would be advantageous also to proceed with these additional investments, The Board has therefore discussed with its lender, Heritage Square Limited ("Heritage Square"), a new framework agreement under which the Company can draw down additional bridging loans, up to a maximum of £2.5m, to enable the Company to borrow up to 90% of the lower of the acquisition price and the market value of a property ("the new framework agreement"). Further details of this facility are set out below.

The additional projects are currently in construction or about to begin construction and would not be completed before the end of 2016 at the earliest. The extra facility from Heritage Square would enable SIPP to exchange contracts to buy these projects on full completion of construction as attested by an independent monitoring surveyor. Simultaneously at exchange, an agreement for lease would be signed with an appropriate tenant, typically a housing association. The new framework agreement would give the Board confidence that it has the finance to buy the projects at practical completion in 2017. The Company is currently reviewing its options for raising additional equity finance prior to the completion of construction, which would mean that it would not need to draw on this new facility.

Short Term Accommodation

The Investment Adviser has also identified opportunities to invest in residential property to be used to supply short term accommodation for local authorities to enable them to meet their housing obligations. The Company has agreed in principle to work in partnership in this area with an established operator with strong local authority relationships and experience. Although individual lettings might well be short term, demand is strong and occupancy rates are high, with an expected gross income yield of over 10% p.a.

The first acquisitions in this area are in the pipeline and the Company has agreed an extension to its original Framework Facility Agreement with Heritage Square. The extension is for up to a further £3.2m to fund such acquisitions at an interest rate of 6.5% p.a. and on terms which are otherwise substantially the same as the original Framework Facility Agreement.

Related Party Transactions

Puma Investments, which is the Company's Investment Adviser, also acts as Trading Adviser to Heritage Square, a specialist property lending company. Puma Investments is a subsidiary of the Shore Capital group of companies, and another member of that group is a substantial shareholder in the Company. Accordingly, Heritage Square is deemed to be a related party under Rule 13 of the AIM Rules. As a consequence, the entering into of the new framework agreement and the extension of the original Framework Facility Agreement are deemed to be related party transactions under Rule 13 of the AIM Rules.

The principal terms of the new framework agreement are as follows:

- £2.5m additional secured facility for 2 years, available to be drawn only in the first 12 months;
- Provides increased leverage on the existing facility (which is up to 70% loan to value) to increase leverage on individual loans up to 90% loan to value;
- 1% one-off, non-refundable arrangement fee of £25,000 payable on signature;
- Additional leverage (i.e. over 70%) attracts interest on following basis:
 - 1.0% per month for the first 6 months from date of drawdown;
 - 1.25% per month for months 7 to 12;
 - 1.5% per month for months 13 to 18;
 - 1.75% per month for months 19 to 24.

John Le Poidevin, the sole independent director, having consulted with the Company's nominated adviser, Allenby Capital Limited, considers that the terms of the £2.5m new framework agreement and of the £3.2m extension of the original Framework Facility Agreement for Short Term Accommodation are fair and reasonable insofar as shareholders are concerned.

Future Plans

The Company, together with its Investment Adviser, is developing a strong flow of opportunities to buy properties in the social care sector delivering relatively high yields and expects to be able to continue to generate attractive investments in this space in a larger programme of investment. For this reason, the Board is contemplating a further equity fund raising in due course.

Outlook

Having established a solid platform for executing its initial investment strategy, the Board is satisfied that the Company has made very good progress to date. Completing the pipeline currently in legal process as well as the additional deals identified will transform SIPP's outlook, established it as a high yielding investment for its shareholders with both strong defensive characteristics and good prospects for capital growth.

John Le Poidevin

Director

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
Notes	£'000	£'000	£'000
Revenue	25	-	-
Administrative expenditure	(72)	(66)	(168)
Operating loss	(47)	(66)	(168)
Interest income	1	-	2
Finance costs	(11)	-	-
Loss before taxation	(57)	(66)	(166)
Taxation	-	-	-
Loss after taxation and total comprehensive loss for the period	(57)	(66)	(166)
Loss per share	(0.57)p	(2.65)p	(6.66)p

Consolidated Statement of Financial Position**As at 30 June 2016 (unaudited)**

	Notes	As at 30 June 2016	As at 30 June 2015	As at 31 December 2015
		£'000	£'000	£'000
Non-current assets				
Investment properties	4	1,673	-	-
Intangible assets		1	-	-
		<hr/>	<hr/>	<hr/>
		1,674	-	-
Current assets				
Trade and other receivables		16	4	8
Cash and cash equivalents		1,695	421	333
		<hr/>	<hr/>	<hr/>
		1,711	425	341
Total assets		<hr/>	<hr/>	<hr/>
		3,385	425	341
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Current liabilities				

Trade and other payables		(64)	(7)	(23)
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Non-current liabilities

Loans due after more than one year	5	(1,030)	-	-
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Total liabilities		(1,094)	(7)	(23)
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Net Assets		2,291	418	318
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Equity

Capital and Reserves

Called up share capital	6	2,598	2,491	2,491
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Share premium account		12,938	11,015	11,015
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Retained earnings		(13,245)	(13,088)	(13,188)
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Total equity		2,291	418	318
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Net Asset Value per share		17.35p	16.78p	12.77p
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Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016 (unaudited)

	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
At 1 January 2015	2,491	11,015	(13,022)	484
Loss for the period	-	-	(66)	(66)
At 30 June 2015	2,491	11,015	(13,088)	418

	Share capital	Share premium account	Retained earnings	Total
	£'000	£'000	£'000	£'000
At 1 July 2015	2,491	11,015	(13,088)	418
Loss for the period	-	-	(100)	(100)
At 31 December 2015	2,491	11,015	(13,188)	318

Share capital	Share premium account	Retained earnings	Total
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	£'000	£'000	£'000	£'000
At 1 January 2016	2,491	11,015	(13,188)	318
Loss for the period	-	-	(57)	(57)
Issue of share capital	107	1,923	-	2,030
At 30 June 2016	2,598	12,938	(13,245)	2,291

Consolidated Cash Flow Statement

For the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	£'000	£'000	£'000
Loss from operations	(47)	(66)	(168)
(Increase)/decrease in receivables	(8)	4	-
Increase/(decrease) in payables	30	(18)	(2)

Cash flows from operating activities	(25)	(80)	(170)
Investing activities			
Interest received	1	-	2
Purchase of investment properties	(1,673)	-	-
Purchase of intangible assets	(1)	-	-
Net cash (used in)/generated from investing activities	(1,673)	-	2
Financing activities			
Proceeds from issue of share capital	2,030	-	-
New loans received	1,030	-	-
Net cash generated from financing activities	3,060	-	-
Net increase/(decrease) in cash and cash equivalents during the period	1,362	(80)	(168)
Cash and cash equivalents at beginning of period	333	501	501
Cash and cash equivalents at end of period	1,695	421	333

Notes to the Interim Financial Report

For the six months ended 30 June 2016 (unaudited)

1. Financial information

Basis of preparation and publication

The annual financial statements of Specialist Investment Properties Plc are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report for the period ended 30 June 2016 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

The information for the year ended 31 December 2015 does not constitute statutory accounts. The Annual Report and Accounts of the Group were issued on 5 April 2016. The auditor's report on those accounts was not qualified and did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report.

Copies of this announcement are available on the Company's website
www.specialistinvestmentproperties.com

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the following new accounting policies which have been adopted by the Group during the period:

Investment properties

The Group's investment properties are held for long term investment. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value based on market data and a valuation made as of each reporting date. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect future benefits from this future expenditure.

Gains or losses arising from changes in the fair value of investment properties are included in the Group Statement of Comprehensive Income in the year in which they arise.

Investment properties are recognised for accounting purposes upon completion of contract, when the risks and rewards of ownership are transferred to the Group. Investment properties cease to be recognised when they have been disposed of. Any gains and losses arising are recognised in the Group Statement of Comprehensive Income in the year of disposal.

Net rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

Bank loans and borrowings

All loans and borrowings are initially measured at fair value less directly attributable transaction costs. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

Borrowing costs

Borrowing costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs the Group incurs in connection with the borrowing of funds.

2. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six month period to 30 June 2016 (30 June 2015: £nil, 31 December 2015: £nil).

3. Loss per share

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	£'000	£'000	£'000
Loss for the period	(57)	(66)	(166)

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	No.	No.	No.
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	9,966,607	2,490,953	2,490,953

Loss per share (pence)

Basic and diluted	(0.57)	(2.65)	(6.66)
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The loss per share for the six months ended 30 June 2015 and the year ended 31 December 2015 has been restated to take account of the share reorganisation in the period (see note 6).

4. Investment properties

	£'000
At 1 January 2016	-
Additions in the period	1,673
At 30 June 2016	1,673

Investment properties purchased during the period totalled £1,673,000 including stamp duty land tax and other associated fees and costs. The properties are carried at their acquisition cost at the period end as this is considered to be a reasonable approximation for open market value.

5. Loans due after more than one year

As at 30 June 2016, the Group had drawn loans totalling £1,030,000 from a £4.2m loan facility advanced in the period by Heritage Square Limited, a related entity to whom the Company's Investment Adviser, Puma Investments, acts as Trading Adviser.

Under the loan facility, interest is payable on drawn funds at a rate of 6% per annum and loans are repayable two years after the date of drawdown. Loans are used to fund the purchase of investment properties and are secured on those properties by way of a first charge.

6. Share Capital

The total number of Ordinary shares in issue at the start of the period was 49,810,050. On 24 February 2016, these shares were reorganised such that the number of shares was reduced by a ratio of 1:20. On the same date, 10,713,142 new Ordinary shares were issued for net proceeds (after costs) of £2.03m.

On 1 April 2016, 316 new Ordinary shares were issued for net proceeds of £52. As at 30 June 2016, the total number of Ordinary shares in issue was 13,204,411.

This information is provided by RNS
The company news service from the London Stock Exchange

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