

Richard Shepherd-Cross, Fund Manager



Richard Shepherd-Cross is a chartered surveyor. He joined Mattioli Woods in 2009, and established Custodian Capital as a property fund management subsidiary to the group. In 2014 he led the business through its flotation as Custodian REIT PLC.

Alex Nix, Assistant Fund Manager



Alex Nix joined Custodian Capital in 2012, having spent 8 years with Lambert Smith Hampton. He holds a degree in real estate management, and qualified as a chartered surveyor in 2006.

Real Estate Services 29/01/2019

52-WEEK HIGH	121.0p
52-WEEK LOW	105.0p
PRICE	114.00p
MARKET CAP MLN	449.85
NET DEBT (MLN)	£109.30

Major Shareholders

Mattioli Woods 5.9%	
Blackrock 3.4%	
Primary Index	FTSE AS
Next Key Announcement	March 31st 2019

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Custodian REIT - Strategy still winning

Steady progress continues

Custodian REIT (LON:CREI) released its quarterly net asset value (NAV) updated on 29 January. This was in line with our expectations.

NAV Total Return +1.0% in the quarter. Portfolio net initial yield (a measure of property income yield) of 6.6%. Balance sheet gearing remains low at LTV (loan-to-value) ratio of 24.7%.

We believe that all of the key dynamics remain intact to sustain continuing strong shareholder returns.

Sector positioning - "alternative" REITs in focus

During 2018 Custodian was among the top 10 performing UK real estate investment trusts (REITs) by total shareholder return. In this report, we take a look at strategies that have performed well in the REIT sector. We argue that Custodian's focus on regional properties sustains continued strong rental income returns in 2019 and beyond.

Since the initial public offering (IPO) in 2014, Custodian has delivered NAV total returns of 7.3% per year, of which more than 70% has come from dividends paid. Dividends are supported by strong rental income (details on p3).

Secure dividend

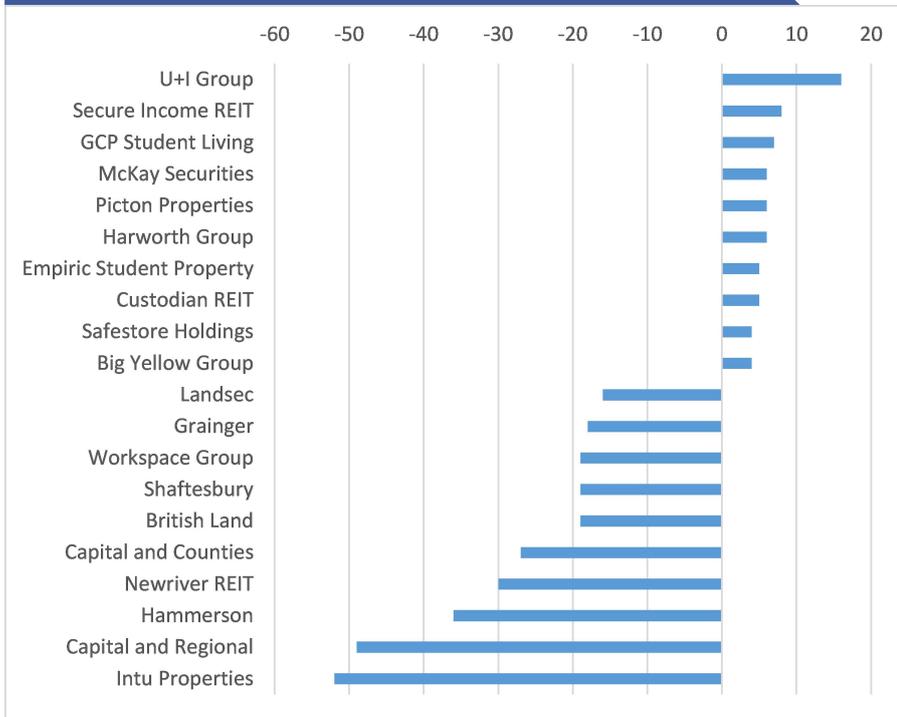
Custodian REIT currently offers a dividend yield of 5.7% (2019e). We argue that the dividend is one of the most secure in the sectors based on: 1) Low tenant concentrations, with the largest tenant accounting for only 3.2% of the rent roll; 2) Low gearing - loan-to-value of 24.7%; 3) Dividend is fully covered by earnings.

On a risk/reward basis, we argue that Custodian REIT remains a stand-out opportunity in the REIT space.

Year end Mar 31	2017	2018	Current*	2020
Value of investment properties	415.8	528.9	579.5	631.1
Revenue from property (£m)	27.6	34.8	39.0	42.5
EPRA EPS* (GBp)	6.6	6.9	7.1	7.4
DPS (GBp)	6.35	6.45	6.55	6.70
Dividend yield	5.6%	5.7%	5.7%	5.9%

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UK REITs, 10 best and 10 worst total return 2018



Source: Property Week

Alternative strategies outperforming the big REITs

The chart above shows the total return performance of the 10 best and 10 worst performing UK REITs of 2018, with Custodian featuring in the top 10.

The best performers are generally REITs with "alternative" strategies:

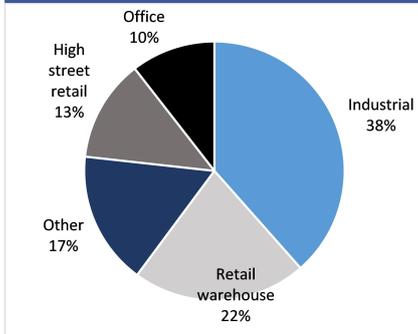
- Specialised sectors such as student accommodation (GCP or Empiric) or self-storage (Big Yellow or Safestore).
- Regional players such as Picton or Custodian.
- Developers such as U+I or Harworth.

The weaker performers have a higher weighting towards:

- Big urban shopping malls
- Prime London office and retail

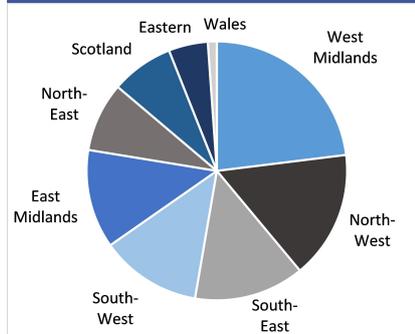
We believe that performance in 2019 will once again be predicated on strong cash generation from rental income to support dividends. Custodian continues to benefit from these dynamics while avoiding high concentration to individual tenants or industry sectors (in contrast to some of the other top 10 names) and avoiding speculative development risk.

Portfolio by segment



Source: Company data

Portfolio by region

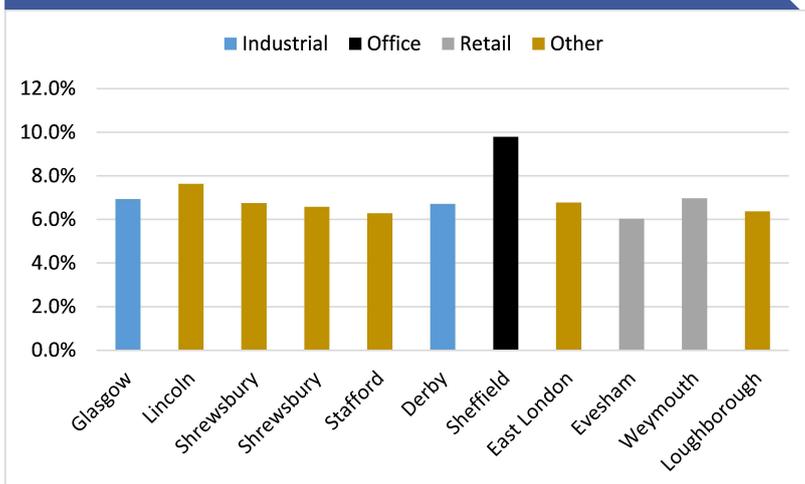


Source: Company data

The charts above show Custodian REIT's portfolio by region and by property type. Portfolio diversification is a key risk mitigation strategy for Custodian. It also enables Custodian to seek strong income-yielding assets that might sometimes become scarce in one region or sector (e.g. prime London office space currently offers lower rental yields).

Recent acquisitions have been achieved at favourable rental yields. The following chart shows net initial yields for the properties acquired by Custodian in the last 12 months. Custodian has increased its exposure to the "other" segment during the period, which includes car dealerships (Shrewsbury, Loughboroguh, Stafford), a gym (Lincoln) and a place of worship (East London).

Net Initial Yield of recent acquisitions



Source: Company data

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