First Property Group PLC

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First Property keener on UK properties post-Brexit

There are company bosses fearful of the prospects posed by Brexit.

Ben Habib, chief executive at commercial property investor and fund manager First Property Group PLC (LON:FPO), isn't one of them.

He sees market instability after the UK vote to leave the EU as a big opportunity for a small firm like First Property, and means (for currency reasons) an immediate injection of profits in the short term and later, a chance to buy more UK assets at cheaper prices.

Longer term is also looking good for the UK market, he reckons.

The company runs two businesses operating in the UK and Central Europe. FCA regulated subsidiary First Property Asset Management Ltd (FPAM) is a property fund manager, which earns fees from investing on behalf of third parties.

Meanwhile, its Group Properties business has a directly owned portfolio of 11 owned offices and retail properties, divided into UK (44%), Poland (51%) and Romania (5%). It makes its money by buying and selling property, management fees and from rents.

In the aftermath of the Brexit sterling slumped to 31-year-lows, which Habib said would mean First's €9mln annual net income would go up considerably in sterling terms.

"If the exchange rate hangs around the current levels, we will be about a million a year better off in sterling terms," he told Proactive back in August.

The pound has recovered against the euro since November, but is still some way short of pre-Brexit levels.

The time is now ripe to buy UK property, which, with current market volatility and prices under pressure, is a "compelling" opportunity, says Habib.

This is especially the case in London, where the group has not previously focused because competition from other buyers had pushed up prices to unrealistic levels.

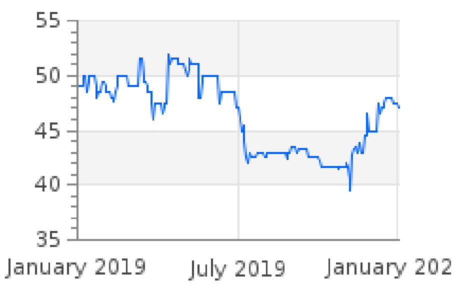
"We are looking to buy as much UK property as we can, while the market remains weak because we don't think that's going to be a long term phenomena," said Habib, who has described the firm's strategy as one of "rigorous pursuit of high yielding property".

An example of this would be the funds First Property has invested on behalf of the Shipbuilding Industries Pension Scheme (SIPS).

Price: 47

Market Cap: £51.87 m

1 Year Share Price Graph



Share Information

Code:		FPO
Listing:		AIM
52 week	**High**	**Low**
	53.9	**39.2**
Sector:		**Real Estate**
Website:		**www.fprop.com**

Company Synopsis:
First Property Group plc is a property fund manager and investor with operations in the United Kingdom and Central Europe. Around one third of the shares are owned by the management team and their families. Its earnings are derived from:

Fund management - via its FCA regulated and AIFMD approved subsidiary, First Property Asset Management Ltd (FPAM), which earns fees from investing for third parties in property.

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The SIPS fund is invested in twenty four properties at a cost of £160.7mln, producing an annualised yield after management charges of 6.3%.

In terms of buying European property (its core focus), Habib said now is not the right time, with the currency strong and therefore assets expensive but the firm will see where the euro settles in forthcoming months.

Currently, Habib reaffirmed that the firm sees Brexit (as it stands) as long term very good for the UK.

Interestingly, he says it has paradoxically strengthened the UK's hand in negotiations with the USA, which contradicts President Obama's view that it would be sent to the back of the queue).

That's because a quarter of what the USA imports from the EU is actually from the UK, meaning America needs to sort out what it's doing with the UK before even starting to talk to the EU, suggests Habib. He reckons in time the UK relationship with the EU will be a good one.

First Property's last set of full-year results showed a company on good form, with the value of its directly owned portfolio rising by 6% to £134.53mln from £126.90mln previously.

Funds under management overall rose by 8% to £353mln, though profits were 9% lower at £7.4mln as the euro's weakness against sterling cost some £671,000 compared to the previous year. Impressively, the group lifted the divi pay-out for the year 11.5% to 1.115p.

Funds under management by the end of 2016 had risen to £457mln.

The year to end of March 2016 also saw visibility on earnings increase, with around 94.8% (2015: 81.8%) of its revenue now recurring nature (namely fees and rents) and due to full year of contributions from the investments made by the group.

"Short of a seismic commercial event, we should be able to maintain the divi and intend to increase it as we do more deals and grow the business," said Habib at the time.

House broker Arden forecasts adjusted profit before tax in the current year will rise to £9.2mln from £7.7mln last year.

It predicts a full-year dividend of 1.5p.

"However, with additional new mandates expected 'very soon', which would boost fee income, and with c.£14m of its own cash available for direct investment or co-investments in any new funds, there is good scope to grow profits, providing upside to our forecasts," Arden said in a note issued in December.

Based on its forecast earnings per share of 5.6p for the current financial year, the stock trades on a modest earnings multiple of 8.1, while the projected yield is a savings account-beating 3.4%.

The shares trade at 45.7p, which is more or less the net asset value per share.

"Given the modest valuation and the potential to grow profits further, we think the shares remain attractive," the broker said.

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