Pineapple Corporation plc

News Bulletin

Dear Shareholder,

I am writing to you to comment on the situation of the company in light of the dramatic increases in interest rates that have been experienced in the UK over the last two years and particularly in the last twelve months.

Two years ago the BOE base rate stood at 0.1%; one year ago it stood at 1.75%. In the last twelve months it has rocketed to 5.25% and the financial markets predict that it will rise still further to 5.75% - a rate that we have not seen in the UK since July 2007 - before levelling off at the end of this calendar year.

When we look at the interest payable on our bank finance, this has increased from 2.5% to a predicted peak of 8.15% at the end of this year.

This company has always adopted a conservative approach to its finances and restricted its bank borrowings to below 40% loan to property value of its portfolio which is very low compared to property industry standards. Based upon our highest level of borrowing of £24.1M in May 2021, then our annual interest cost could potentially have risen from £603,000 to £1,965,000. An increase of £1,362,000, effectively wiping out our ability to pay dividends – our annual dividends in ye31/3/22 were £1,641,000 and in ye 31/3/23 were £1,627,000.

Having recognized the problems that this was going to cause at a very early stage we have taken the following steps to alleviate the problems that we might have been faced with:

1. We have suspended or postponed the development of our sites at Sulgrave Road (Hammersmith), Alie Street in the City and Lombard Road, Merton.
2. We have implemented a limited disposal programme by selling off a number of mature, non-key investment properties where we felt that maximum value had already been achieved from those properties.
3. We have re-negotiated our bank facility at a slightly lower margin of 2.2% (compared to 2.4% previously).
4. We have set a target to reduce our bank borrowings to below £15M by 31st March 2024.

We have reduced bank borrowings from £24.1M in May 2021 to £22.4M by 31st March 2022, £20.8M by 31st March 2023 and to £19M at today's date. Further contracted sales which are due to complete in October will see this reduce to £15.4M by the end of October and we are confident that we will be below our £15M target by the end of this calendar year – three months ahead of our own schedule.

This will reduce our annual interest cost at peak rates from what could have been £1,965,000 highlighted above, down to a peak rate of £1,195,000. Whilst still difficult it will be manageable and cashflow will improve significantly thereafter as interest rates ease in 2024 (as predicted).

We are looking at all items of cash outflows and we will initiate new policies as needed.

On the positive side we have been able to uplift rental income by over 10% which mitigates to a significant extent the interest burden.

Recognising that dividend payments are an important part of our company profile and equally important to our shareholders we are determined to maintain our record of continuing to pay dividends throughout the toughest times this country has seen since 2007 when the company became a REIT, be it the financial crisis in 2008, near global financial meltdown, covid crisis or whatever else has been thrown at us.

Last March we paid a dividend of 8p for a six month period and we are pleased to announce that we intend to continue to pay dividends at this rate (16p annually). However, in order to ease our cashflow management we have decided to change our dividend payment policy to make payments quarterly, rather than bi-annually.

Accordingly we will be paying a dividend of 4p per share on or around the 18th September – the exact date will be announced following our Board meeting next week. We plan to make a further dividend payment of 4p in December of this year.

A quarterly dividend payment more closely matches our quarterly cashflow from rents received and makes our cashflow significantly easier to manage and reduces interest payments too.

I hope you will appreciate why we are doing this and the efforts we have gone through to minimise the adverse effects that these interest rate increase have on you as shareholders.

We also hope that all shareholders will support our strategy during these difficult times.

We must also consider the medium and long term prospects of the property market. It seems clear that property values will fall in the year to 31st March 2024 as a result of market tightening with high interest costs, but the extent of the fall is far from clear. Most commentators are suggesting a 5% fall – our view anticipates an average fall across the various market sectors closer to 10%. We have only history to guide us. We also think as the effects of inflation on new buildings are felt with a tight supply of property then the market in London will bounce back strongly in the short to medium term.

As ever we will continue to focus on upholding and improving the share value of our company.

Yours sincerely,

Tom Berglund

Tom Berglund
Chairman
7th September 2023