Progressive EQUITY RESEARCH

GRAINGER

REAL ESTATE INVESTMENT & SERVICES

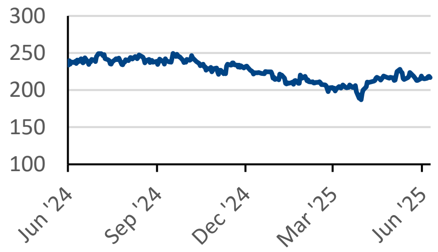
23 June 2025

GRI.L

220p

Market Cap: £1627.8m

SHARE PRICE (p)



12m high/low	250p/187p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£(1,475.0)m *(at 31/03/25)*
Enterprise value	£3102.8m
Index/market	LSE
Next news	Trading update, Sep
Shares in issue (m)	741.6
Chairman	Mark Clare
Chief Executive	Helen Gordon
CFO	Robert Hudson

COMPANY DESCRIPTION

Grainger is the UK's largest listed residential landlord, owning 11,000 private rental and regulated tenancy homes.

https://www.graingerplc.co.uk

GRAINGER IS A RESEARCH CLIENT OF PROGRESSIVE

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One step beyond…

In the ambition of growing its build-to-rent (BTR) portfolio, we believe Grainger has a unique advantage relative to much of the peer group: its in-demand stock of reversionary properties can support its current expansion plans, whereas rivals are more dependent on expensive debt and a depressed forward-funding market, despite huge demand for rental homes. This update highlights Grainger's projects during a window of opportunity, when we see it on the front foot while others struggle to gain traction.

- **Reversionary portfolio feeds BTR.** Grainger has a 'war chest' of c.£1.1bn low yield non-core assets, including its portfolio of over 1,340 regulated tenancies that it can recycle into funding earnings-accretive BTR development. Peers, however, currently face debt interest being higher than rental yields and a depressed forward-funding market. We highlight proposed Grainger schemes, funded by portfolio recycling without increasing group debt, to drive aimed-for earnings growth of 50% by FY29. We provide examples of new BTR schemes on page 2.

- **Aligned to government's mixed-tenure plans.** Chancellor Rachel Reeves' Spending Review on 11 June provided £39bn of grant funding for social housing over the next 10 years and, more critically, set affordable rents to rise by CPI +1% pa over the same period. While this was aimed at affordable housing, we believe most homes will be delivered as part of larger mixed-tenure partnership developments. One example of innovative working with the public sector is Grainger's Wellesley development in Aldershot in partnership with the MoD, which needs to expand and improve housing. Planning is also much improved (page 3).

- **Progress on track in H1 results.** The interim results on 15 May showed the group on track for its current-year and medium-term targets. We leave our FY25E and FY26E estimates unchanged (pages 4 - 8).

- **Investment attractions include 'BTL-to-BTR'.** Grainger is the UK's largest listed residential landlord and property manager, operating c.11,000 rental homes. It should benefit from huge demand for rental property, with income largely inflation-hedged, and from tax benefits from its imminent conversion to a real estate investment trust (REIT). Private buy-to-let (BLT) investors are exiting the sector due to tax and regulatory burdens. We argue that Grainger offers a 'BTL-to-BTR' route, with inflation tracking rental income with the benefits of the group's scale, minus the 'hassle' of owning smaller-scale portfolios (page 9).

FYE SEP (£M)	2023	2024	2025E	2026E	2027E
Net rental income	96.5	110.1	126.6	137.4	146.4
EPRA earnings before tax	39.5	48.0	54.4	60.9	65.2
EPRA EPS, before tax* (p)	5.3	6.5	7.3	8.2	8.8
Dividend per share (p)	6.7	7.6	8.5	9.1	9.5
PER (x)	41.3x	33.9x	29.9x	26.7x	25.0x
EPRA PTNAV (x)	0.72x	0.74x	0.72x	0.71x	0.70x
Dividend yield	3.0%	3.4%	3.9%	4.2%	4.3%

Source: Company Information and Progressive Equity Research estimates.

A step ahead: recycling reversionary homes into BTR pipeline

Reversionary portfolio funding BTR pipeline while current high cost of debt and geopolitical concerns hamper rivals

in our view, Grainger currently has a unique advantage over much of its peer group in BTR: its still-extensive reservoir of reversionary regulated tenancy properties and non-core assets, the sale of which can fund investment in developing the BTR pipeline. Meanwhile, other BTR developers have reported a hiatus in conventional forward-funding, citing persistently high borrowing costs and geopolitical concerns. While conditions should eventually normalise, we believe Grainger can benefit from a 'window of opportunity' to maintain its growth trajectory.

'War chest' of c. £1.1bn to sell at low yields and reinvest in higher yielding BTR

The reversionary portfolio has steadily declined, in line with CEO Helen Gordon's strategy of recycling the investment into building the BTR portfolio, from 8,234 properties in 2015 to 1,340 currently, with a balance sheet worth £598m reported at the HY results in May. However, the realistic resale value of these and further non-core assets suitable for disposal are estimated to total c.£1.1bn.

This has allowed the group to acquire a number of development land sites. These are located adjacent to existing assets – in line with the group's clustering strategy – supporting Grainger's next phase of growth. Three developments disclosed in the HY results were:

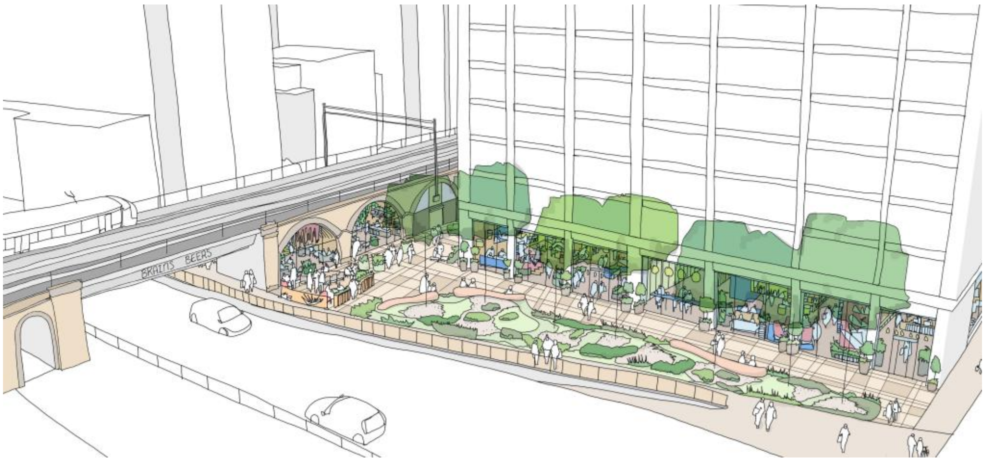
- Guildford site: 179 homes, with planning consent, adjacent to existing asset The Mint, and next to Guildford train station – going through building safety regulator approval.
- Sheffield site: up to 193 homes, progressing through planning, near to two existing assets Brook Place and The Tilt Works, which together comprise 521 homes.
- Cardiff site ('John Street'): see below.

Complex Cardiff projects highlights planning and development skills

Planning consent to be adapted to BTR-led scheme

The proposed St John Street development in the Welsh capital, acquired by Grainger in late 2024, is currently proceeding through planning and could deliver around 400 new BTR homes. Investment includes a £6.2m site at John Street, which includes the long leasehold of five railway arches, to be 'reactivated'. The former site currently has planning permission for office space and a hotel, and Grainger is attempting to gain consent for a BTR-led scheme – in our view, highlighting the group's record with complicated briefs.

Figure 1: St John Street, Cardiff – planned BTR development



Source: Grainger

Aligned to government's expanded multi-tenure strategy

Government has this month announced two massive initiatives to support affordable housing – but multi-tenure partnership providers will develop much of it

The government has a highly ambitious manifesto commitment to delivering 1.5 million new homes in England within this Parliament. On 11 June, it announced a groundbreaking £39bn of grant funding for affordable house building over the next 10 years and, more critically, set affordable rents to rise by CPI +1% pa over the same period – which should attract further private sector funding, attracted by the inflation hedging in homes that will have very high occupancy. A week later, it launched the National Housing Bank, with a budget of £16bn of investment to deploy in low-cost loans, guarantees and other investments, on top of £6bn of existing finance to be allocated this Parliament – again, with the aim of leveraging further private funding. While this funding was aimed at affordable housing, major elements of the plan will be delivered as part of larger mixed-tenure partnership developments – which we believe Grainger is perfectly attuned to.

A prime example of these opportunities – which chimes with another growing government imperative, namely defence housing – is the Wellesley development in Aldershot, where the group has been selected as development partner of the Ministry of Defence. Grainger is delivering 3,850 new homes on disused Army Barracks land, as well as the refurbishment of six grade II listed former military buildings, two new primary schools, as well as green space and other amenities (Figure 2).

MoD scheme satisfies mixed-tenure partnership requirement and growing demand for defence housing

Approximately 43% of the scheme has been completed to date. Private homes will comprise 65% of the development, a mix between 'for-sale', where Grainger will sell plots to housebuilders on behalf of the MoD, and 'single family rental', which Grainger will seek to acquire from the MoD and rent out, perfectly aligned to its BTR strategy. Affordable homes will comprise the remaining 35%, which Grainger is acquiring through its in-house Registered Provider of Affordable Homes. Wellesley is a leading example of Grainger's expertise in acting as master developer on large, strategic, mixed-use developments, and also its unique and strong position as a preferred partner with public sector organisations. Other public sector partners include TfL, Network Rail and Lewisham Borough Council

Grainger sole land owner and master developer near Portsmouth, offering different tenures

Another example of large, residential led strategic land opportunities is the c.500-acre Berewood scheme, north of Portsmouth, for 2,550 homes, with Grainger the sole land owner and master developer: providing private for sale through selling plots to well-known house builders; private for rent, which the group retains and manages; and affordable homes (40%), retained and operated by Grainger through its own registered provider.

Figure 2: Wellesley masterplan

Source: Grainger

HY results and outlook: staying on track

Interims on track for FY25E and mid-term targets

The interim results on 15 May showed the group on track for its current-year and medium-term targets. Most key metrics showed growth (Figure 3), while the group tightened the timing of previous guidance on when it would achieve 50% earnings growth, from 'in the medium term' to 'from FY24 to FY29'. We maintain our FY25E and FY26E estimates and made very slight revisions to FY27E.

Figure 3: HY results, key items

HY to 31 March (£m)	2025	2024	Change
Net rental income	61.3	53.2	+15%
EPRA earnings before tax	30.2	24.5	+23%
Adj earnings	50.1	44.4	+13%
IFRS PBT	74.0	(31.2)	na
EPRA EPS, dil., pre-tax[1] (p)	5.1	4.5	+13%
Interim dividend (p)	2.85	2.54	+12%
EPRA NTAPS (p)	300	298p	+1%
Net debt	1,475	1,453	
Group LTV (%)	38.5	38.2	+35 bps

Source: Company data [1] For comparison with other REITs

Key points:

- **Rental income.** LFL rental growth of 4.4% (FY24: 6.3%), with BTR rents growing 4.2% (of which new lets +3.1% and renewals +4.9%). Regulated tenancy rental growth of 7.0%.
- **Occupancy.** 'Achieved high occupancy at 96.0% (FY24: 97.4%); a strong customer demographic base with 89% between ages 20-44 from a broad, robust employer base.'
- **Regulatory and market issues.** 'The vast majority of our portfolio has been built post-Grenfell and the majority of the facades are brickwork. The timing of our pipeline projects means that we have been insulated from delays associated with the Building Safety Regulator approval process. The Renters' Rights Bill will professionalise the market and raise standards. Grainger, in the main, is already aligned to the new legislative landscape. That said, it is likely that many smaller, private individual landlords will find the new regime challenging and will therefore accelerate their exit from the market, further constraining supply.'
- **Outlook.** 'Through the delivery of the first part of our pipeline, our committed pipeline, we expect to deliver strong like-for-like rental growth and 50% earnings growth from FY24 to FY29 after fully absorbing the impact of higher interest costs. [50% guidance was previously '*in the medium term*' now '*by FY29*'; additional 25% growth target by FY26 also introduced.] We have significant firepower from our non-core portfolio to fund growth beyond that for our remaining pipeline or additional stabilised acquisitions. Our asset class and specifically our portfolio and platform, deliver inflation-backed rental growth. Our sector leading operating platform is scalable and our EBITDA margins are growing substantially as we deliver our large pipeline.'

Our forecasts: unchanged for FY25E and FY26E

Pipeline offers transparency on future trajectory of net rental income

We have left the first two years of our three-year forecast period completely unchanged, in our view, a reflection of the consistency of Grainger's delivery against plan. As we outlined in our initiation note, the starting point in driving earnings is growth in net rental income (NRI), which grew by 15% Y/Y in the half. According to the group, a 'rule of thumb' in forecasting subsequent periods is to consult the 'pipeline' chart in each latest results presentation (Figure 4, based on slide 18, in the HY results), which shows passing net rent (all properties let at reporting period end, annualised). A good guide to the reporting NRI figure, and in the immediate case to FY25E, is to add half of the £7m (based on long-term average rental growth maintained at 3.5%) committed pipeline for H2 FY25 to the £123m HY24 'passing NRI), ie £126.5m – this ties in almost exactly to our estimate (Figure 5). For FY26E we add this to half of the £10m FY26 committed pipeline, ie £131.5m (although our forecast assumes slightly higher rental growth, thus our £137.4m estimate).

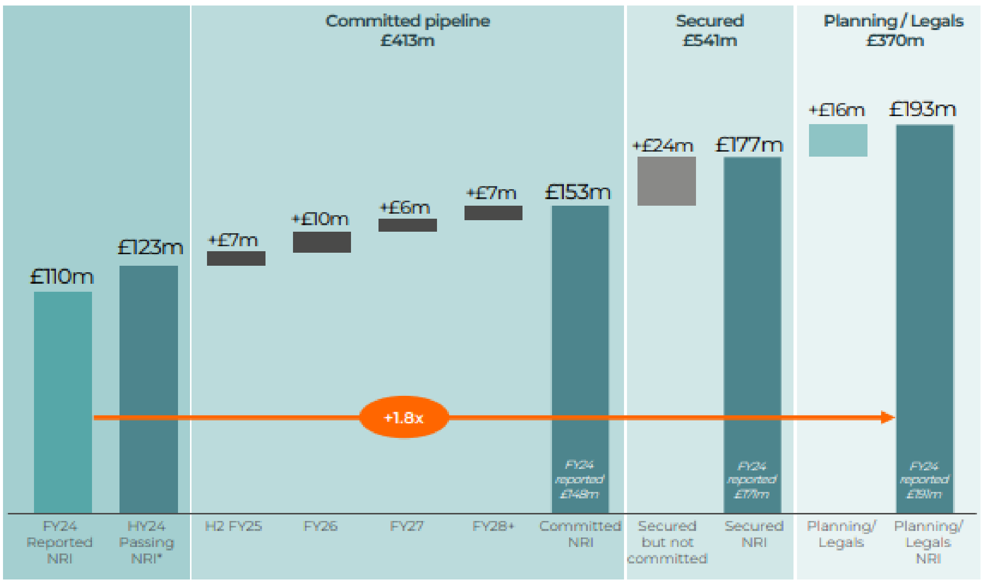
No changes to estimates for FY25E or FY26E

EPRA earnings will become the key P&L metric from FY26E, in line with REIT peers that the group will join from 1 October 2025. This figure, however, excludes the meaningful trading profits that Grainger continues to generate from its disposals programme from non-core assets, including the regulated tenancy portfolio. EPRA earnings records recurring pre-tax earnings: reversing valuation gains and losses; excluding profits on disposals of non-core trading and investment properties and other adjustments (for more detail, see pages 7 - 8 of our initiation note). For FY25E and FY26E, we forecast growth in EPRA earnings before tax of 3.1% and 6.9%, respectively – unchanged on our previous estimates .

No underlying changes for FY27E profitability, but slight reduction to 'other' income, with cash improved

We have not changed any underlying assumptions for our FY27E P&L estimates, but have reduced our 'other' income (included liquidated and ascertained damages) from £7.0m to £5.0m, continuing the steady decline assumed for FY26E. This reduces our EPRA earnings estimate by the same £2m, or 3%, to £65.2m. We also reduce our dividend estimate pro-rata, from 9.8p to 9.5p. There is virtually no impact on NTAPS, but we have assumed improved cashflow conversion, leading us to reduce our net debt estimate from £1,534m to £1,526m – in line with guidance of steady de-leveraging (Figure 7).

Figure 4: Net rental income from committed and future pipeline



Source: HY results presentation

Figure 5: FY and HY revenue and earnings

YE September (£m)	2024	2025E	2026E	2027E	2024 H1	2024 H2	2025 H1	2025 H2E
Gross rental income	154.8	170.3	183.9	193.1	74.7	80.1	84.1	86.2
Gross proceeds from disposal of trading properties (1)	127.2	120.8	114.8	109.1	35.5	91.7	47.6	73.2
Fees and other income (2)	8.1	5.5	4.0	2.0	3.5	4.6	4.7	0.8
Group revenue	**290.1**	**296.6**	**302.7**	**304.2**	**113.7**	**176.4**	**136.4**	**160.2**
Less: disposal proceeds, fees and other (1) & (2)	(135.3)	(126.3)	(118.8)	(111.1)	(39.0)	(96.3)	(52.3)	(74.0)
Gross rental income	**154.8**	**170.3**	**183.9**	**193.1**	**74.7**	**80.1**	**84.1**	**86.2**
Property operating expenses	(44.7)	(43.7)	(46.5)	(46.7)	(21.5)	(23.2)	(22.8)	(20.9)
Net rental income, of which:	**110.1**	**126.6**	**137.4**	**146.4**	**53.2**	**56.9**	**61.3**	**65.3**
PRS	97.6	117.1	128.8	138.5	46.8	50.8	55.3	61.8
Change (%)	*18.7%*	*20.0%*	*10.0%*	*7.5%*			*18.2%*	*21.7%*
Reversionary	11.5	9.5	8.5	7.9	5.8	5.7	5.4	4.1
Other	1.0	-	-	-	0.6	0.4	0.6	(0.6)
Profit on disposal of development properties	49.4	45.0	40.0	35.0	19.9	29.5	20.2	24.8
Profit on disposal of investment properties	(5.8)	(5.0)	-	-	-	(5.8)	(0.3)	(4.7)
Administrative expenses	(35.3)	(36.7)	(37.4)	(38.2)	(16.2)	(19.1)	(16.9)	(19.8)
Other[1]	0.7	8.5	7.0	5.0	4.0	(3.3)	5.0	3.5
Operating profit, group only	**119.1**	**138.4**	**146.9**	**148.2**	**60.9**	**58.2**	**69.3**	**69.1**
Share in net income of associates, JVs	(0.6)	-	-	-	(0.6)	-	0.2	(0.2)
Net valuation gains/(losses)	(39.1)	-	-	-	(73.8)	34.7	25.3	(25.3)
Net finance costs	(38.8)	(44.0)	(46.0)	(48.0)	(17.7)	(21.1)	(20.8)	(23.2)
PBT, reported	**40.6**	**94.4**	**100.9**	**100.2**	**(31.2)**	**71.8**	**74.0**	**20.4**
Add back net valuation gains/(losses)	39.1	-	-	-	73.8	(34.7)	(25.3)	25.3
Additional adjustments	11.9	-	-	-	1.8	10.1	1.4	(1.4)
Adjusted earnings	**91.6**	**94.4**	**100.9**	**100.2**	**44.4**	**47.2**	**50.1**	**44.3**
EPRA adjustments [2]	(43.6)	(40.0)	(40.0)	(35.0)	(19.9)	(23.7)	(19.9)	(20.1)
EPRA earnings before tax	**48.0**	**54.4**	**60.9**	**65.2**	**24.5**	**23.5**	**30.2**	**24.2**
IFRS diluted EPS (p)	4.2	10.4	13.3	13.2	(3.0)		7.5	
EPRA EPS, diluted, pre-tax[3] (p)	**6.5**	**7.3**	**8.2**	**8.8**	**3.3**		**4.1**	
Dividends	**7.6**	**8.5**	**9.1**	**9.5**	**2.5**	**5.0**	**2.9**	**5.6**

Source: Company data, Progressive Equity Research estimates. [1] Includes LADs; [2] Mainly disposal profits [3] For comparison with other REITs.

Figure 6: P&L and per share data

YE September (£m)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Group revenue	214.0	248.9	279.2	267.1	290.1	296.6	302.7	304.2
Net rental income	**73.6**	**70.6**	**86.3**	**96.5**	**110.1**	**126.6**	**137.4**	**146.4**
Operating and other expenses	33.1	43.2	35.9	31.9	9.0	11.8	9.6	1.8
Group operating profit	**106.7**	**113.8**	**122.2**	**128.4**	**119.1**	**138.4**	**146.9**	**148.2**
Share in net income of associates	(1.5)	0.5	(0.5)	(0.4)	(0.6)	-	-	-
Valuation movements etc	28.4	73.0	210.2	(68.8)	(39.1)	-	-	-
Net interest	(34.5)	(35.2)	(33.3)	(31.8)	(38.8)	(44.0)	(46.0)	(48.0)
PBT, reported	**99.1**	**152.1**	**298.6**	**27.4**	**40.6**	**94.4**	**100.9**	**100.2**
Underlying tax rate (%)	*62.5*	*163.8*	*225.4*	*4.5*	*19.6*	*18.5*	*2.0*	*2.0*
Reported tax	(16.3)	(42.6)	(69.2)	(1.8)	(9.4)	(10.1)	(1.2)	(1.3)
Net attrib. profit	**82.8**	**109.5**	**229.4**	**25.6**	**31.2**	**84.3**	**99.7**	**98.9**
EPRA earnings	**18.2**	**14.2**	**28.2**	**39.5**	**48.0**	**54.4**	**60.9**	**65.2**
EBITDA	**52.6**	**48.7**	**61.6**	**71.2**	**83.1**	**91.9**	**106.9**	**111.7**
Margin, on gross rental income (%)	*53.0%*	*50.0%*	*50.7%*	*53.3%*	*53.7%*	*54.0%*	*58.1%*	743.1
Period end shares (million)	675.3	742.8	742.9	743.0	743.1	743.1	743.1	738.2
Wtd. ave. shares (million)	649.1	677.7	740.5	739.9	738.2	738.2	738.2	741.5
Diluted shares (million)	651.7	680.4	743.1	742.4	741.5	741.5	741.5	13.4
IFRS EPS, basic (p)	12.8	16.2	31.0	3.5	4.2	11.4	13.5	13.3
EPS, EPRA, pre-tax[1], diluted (p)	**2.8**	**2.1**	**3.8**	**5.3**	**6.5**	**7.3**	**8.2**	**8.8**
DPS - declared (p)	**5.5**	**5.2**	**6.0**	**6.7**	**7.6**	**8.5**	**9.1**	**9.5**
Dividend cover, EPRA (x)	0.51	0.40	0.63	0.80	0.86	0.86	0.90	0.93
NAVPS (p)	213.7	234.1	264.7	259.6	254.8	258.3	263.1	267.1
EPRA NTAPS (p)	**326.8**	**297.2**	**317.5**	**305.2**	**298.5**	**305.4**	**310.2**	**314.2**
FCFPS (p)	(10.7)	(24.3)	(21.7)	(7.1)	(4.0)	3.6	9.2	9.6

Source: Company information and Progressive Equity Research estimates. [1] *For comparison with other REITs.*

Figure 7: Adjusted cash flow and summary balance sheet

YE September (£m)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Adjusted cash flow statement								
Group operating profit	106.7	113.8	122.2	128.4	119.1	138.4	146.9	148.2
Depreciation	1.2	1.2	0.9	1.1	1.5	1.5	1.5	1.5
Intangible amortisation	-	-	-	0.1	-	-	-	-
Other, non-cash	(6.4)	(7.0)	(6.0)	28.4	(24.0)	-	-	-
Changes in working capital	42.9	103.1	39.8	71.2	105.1	110.4	115.9	130.4
Operating cash flow	**144.4**	**211.1**	**156.9**	**229.2**	**201.7**	**250.3**	**264.3**	**280.0**
Dividends from associates	-	-	-	0.8	0.5	0.5	0.5	0.5
Capex, net	(151.1)	(313.5)	(263.4)	(237.9)	(166.8)	(170.0)	(150.0)	(160.0)
Net interest	(37.4)	(45.6)	(42.0)	(47.2)	(52.6)	(44.0)	(46.0)	(48.0)
Tax	(25.4)	(16.9)	(12.3)	2.7	(12.5)	(10.1)	(1.2)	(1.3)
Free cashflow	**(69.5)**	**(164.9)**	**(160.8)**	**(52.4)**	**(29.7)**	**26.7**	**67.6**	**71.2**
JV investments	(10.2)	(2.4)	(10.8)	(37.0)	(1.4)	-	-	-
Dividends - paid	(33.5)	(36.8)	(40.0)	(45.7)	(51.0)	(58.3)	(64.7)	(68.8)
Share (purchase)/proceeds	182.4	203.8	(3.3)	-	-		-	-
Other financing	110.6	(51.2)	(6.8)	160.2	54.3	-	-	-
Change in net cash/(debt)	**179.8**	**(51.5)**	**(221.7)**	**25.1**	**(27.8)**	**(31.6)**	**2.9**	**2.4**
Summary balance sheet								
Intangible fixed assets	0.8	0.5	0.5	1.0	1.8	1.8	1.8	1.8
Property, tangible fixed assets	1,854.2	2,252.3	2,849.2	3,024.5	3,064.8	3,233.3	3,381.8	3,540.4
Investments, other TA	50.9	52.1	66.2	104.3	103.9	103.4	102.9	102.4
Working capital	615.4	523.9	388.4	305.5	339.9	229.5	113.7	(16.7)
Provisions, others	(55.5)	(59.9)	(75.8)	(94.2)	(117.0)	(117.0)	(117.0)	(117.0)
Retirement benefit liabilities	-	-	-	-	-	-	-	-
Net cash/(debt)	(1,022.8)	(1,029.9)	(1,261.7)	(1,412.5)	(1,499.7)	(1,531.3)	(1,528.4)	(1,526.0)
Net assets (IFRS)	**1,443.0**	**1,739.0**	**1,966.8**	**1,928.6**	**1,893.7**	**1,919.8**	**1,954.8**	**1,984.9**
IFRS NTA	1,442.2	1,738.5	1,966.3	1,927.6	1,891.9	1,918.0	1,953.0	1,983.1
Adjustments	764.6	469.3	392.7	339.9	326.2	350.0	350.0	350.0
EPRA NTA	**2,206.8**	**2,207.8**	**2,359.0**	**2,267.5**	**2,218.1**	**2,268.0**	**2,303.0**	**2,333.1**

Source: Company information and Progressive Equity Research estimates

Grainger in brief: UK's largest quoted landlord

At the forefront of Britain's private rental revolution

Grainger, founded in Newcastle upon Tyne in 1912, is the UK's largest listed residential landlord and property manager, operating c.11,000 rental homes. Its portfolio comprises 9,689 PRS/BTR apartments across the UK and 1,340 historical regulated tenancy 'reversionary' homes, together valued at £3.5bn at HY25. It is in the process of steadily disposing the reversionary portfolio to fund growth in new PRS homes, either buying from developers or, increasingly, its own purpose-built build-to-rent (BTR) pipeline. The pipeline of BTR apartments totals 4,565 with a value of £1.3bn. The group intends to convert into a tax-efficient real estate investment trust (REIT) in October 2025. See Progressive Equity Research initiation report, Switched onto income surge from Generation Rent.

BTR developments: attractive city centre rental apartment developments, aimed at middle earners

The BTR developments typically comprise one or more blocks with 150-500 apartments mainly in 'clusters' in regional city centres, aimed at middle earners (the median customer income is £36,000 pa). Facilities often include gyms and superfast broadband, and Grainger offers a full range of property management services. On average, a Grainger customer stays for a little less than three years.

Regulated tenancies portfolio offers predictable, inflation-hedged income, with sales offering 'reversionary surplus' – to recycle into BTR investment

The number of regulated tenancies has reduced steadily from 8,234 in 2015 to 1,340. Although the rents are sub-market and set externally, the benefits are a long-term, predictable and generally inflation-hedged income with strong cashflow characteristics, with the ultimate proceeds from disposal generating capital that is recycled into BTR.

We believe Grainger's key investment attractions include:

- **Huge need for BTR development, with attractive returns.** This is a result of the high prices of for-sale homes and relative lack of purpose-build rental housing. Rental demand is forecast by Savills to grow 20% for the 10 years to 2031. This undersupply has been exacerbated by many buy-to-let landlords exiting the market due to growing taxation and regulation. Grainger invests in assets with net yields of 4.5%+.
- **For private investors, 'BTL-to-BTR'.** Many private buy-to-let lenders have been exiting the sector due to several years of rising property taxes and regulatory demands. We have previously argued that shares in Grainger could offer them exposure to largely inflation-tracking rental income, with the benefits of the group's scale in BTR but without the 'hassle' of owning smaller scale portfolios…and soon, tax benefits.
- **Tax benefits from impending conversion to REIT status.** Grainger remains on track to convert to a REIT structure in October 2025, with FY26E to be the first year. This will have no impact on the business. The move should enhance returns, with a tax saving of 25% on BTR profits post-conversion, which Grainger estimates will enhance total returns by 50bps. There will be a minimum payout of 80% of EPRA earnings. The group's expectation is that dividends will be fully covered by EPRA earnings within around two years of conversion, with a top-up from regulated tenancy sales in the interim.
- **Pipeline to deliver 50% earnings growth.** The group aims to increase EPRA earnings by at least 50% by FY29, from only the committed portion of the pipeline completing and being leased, and assumes LFL rental growth of c.3.5% pa and efficiencies offsetting higher interest costs.
- **Steady deleveraging planned.** Grainger has a record of generating operating cashflow of c.£200m+, funding the future pipeline. Around 97% of debt is hedged, with a maturity of c.3.5 years, and LTV is projected to fall from 38% to c.30%-35% by FY29.

Financial Summary: Grainger

Year end: September (£m unless shown)

PROFIT & LOSS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net rental income	96.5	110.1	126.6	137.4	146.4
Revenue	267.1	290.1	296.6	302.7	304.2
Adj EBITDA	71.2	83.1	91.9	106.9	111.7
Reported PBT	27.4	40.6	94.4	100.9	100.2
EPRA earnings before tax	39.5	48.0	54.4	60.9	65.2
NOPAT	122.5	95.8	112.8	144.0	145.2
Reported EPS (p)	3.5	4.2	11.4	13.5	13.4
EPRA EPS, before tax* (p)	5.3	6.5	7.3	8.2	8.8
Dividend per share (p)	6.7	7.6	8.5	9.1	9.5
CASH FLOW & BALANCE SHEET	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Operating cash flow	229.2	201.7	250.3	264.3	280.0
Free Cash flow	(52.4)	(29.7)	26.7	67.6	71.2
FCF per share (p)	(7.1)	(4.0)	3.6	9.2	9.6
Acquisitions	(37.0)	(1.4)	0.0	0.0	0.0
Disposals	N/A	N/A	N/A	N/A	N/A
Shares issued					
Net cash flow	25.1	(27.8)	(31.6)	2.9	2.4
Overdrafts / borrowings	1,533.5	235.6	238.2	240.6	241.1
Cash & equivalents	121.0	93.2	95.3	97.2	97.7
Net (Debt)/Cash, pre-IFRS 16	(1,412.5)	(1,499.7)	(1,531.3)	(1,528.4)	(1,526.0)
NAV AND RETURNS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net asset value	1,928.6	1,893.7	1,919.8	1,954.8	1,984.9
NAV/share (p)	259.6	254.8	258.3	263.1	267.1
EPRA NTAV	2,267.5	2,218.1	2,268.0	2,303.0	2,333.1
NTAV/share (p)	305.2	298.5	305.2	309.9	314.0
Average equity	1,947.7	1,911.2	1,906.7	1,937.3	1,969.8
Post-tax ROE (%)	1.3%	1.6%	4.4%	5.1%	5.0%
METRICS	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net rental income growth	11.8%	14.1%	15.0%	8.5%	6.6%
Adj EBITDA growth	15.6%	16.7%	10.6%	16.3%	4.5%
Adjusted earnings growth	4.4%	(6.1%)	3.1%	6.9%	(0.7%)
EPRA earnings growth	40.1%	21.5%	13.3%	12.0%	7.0%
EPRA EPS growth	40.2%	21.7%	13.3%	12.0%	7.0%
Dividend growth	10.8%	13.5%	12.5%	7.5%	4.0%
EBITDA margin	53.3%	53.7%	54.0%	58.1%	57.8%
VALUATION	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EV/Sales (x)	11.6	10.7	10.5	10.3	10.2
EV/EBITDA (x)	43.6	37.3	33.8	29.0	27.8
EV/NOPAT (x)	25.3	32.4	27.5	21.5	21.4
PER (x)	41.3	33.9	29.9	26.7	25.0
Dividend yield	3.0%	3.4%	3.9%	4.2%	4.3%
FCF yield	(3.2%)	(1.8%)	1.6%	4.2%	4.4%

*Source: Company information and Progressive Equity Research estimates. *For comparison with other REITs.*

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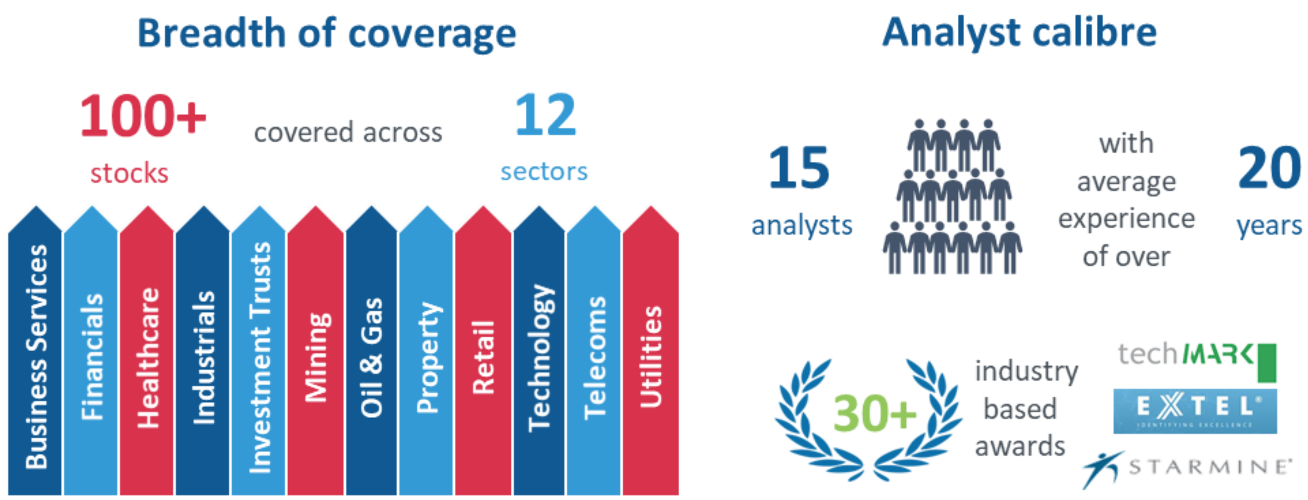

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