

### COMPANY UPDATE

## United Hampshire US REIT (UHU SP)

Providing Certainty In Uncertain Times

The Omicron wave has receded. Demand for groceries remains stable while foot traffic for restaurants and gyms have picked up. UHU has entered into an agreement for the sale of Elizabeth and Perth Amboy Self-storage properties for US\$49m, which is 10.4% above the appraised valuation. Management plans to reinvest the proceeds to higher yielding grocery & necessity properties. UHU provides enticing distribution yield of 10.6% and trades at P/NAV of 0.83x. Maintain BUY. Target price: US\$0.97.

### WHAT'S NEW

- **Omicron wave is waning and largely over.** New cases of COVID-19 infections and hospitalisations have fallen in the US. Many states are dialling back COVID-19 restrictions. In the Northeast, the states of New Jersey and New York have relaxed some COVID-19 restrictions, including the mandatory wearing of masks. Consumer behaviour has started to normalise with pick-up in spending at brick-and-mortar stores (e-commerce sales have conversely slowed) and gradual shift back towards services.
- **Normalisation in consumer spending.** Demand for groceries remains stable as many employees continue to work from their homes. Full-service and quick-service restaurants are benefiting from pent-up demand to dine out. Movie theatres and fitness centres, which were most disrupted by the COVID-19 pandemic, saw substantial recovery in foot traffic.
- **Supporting tenants' omni-channel strategy.** Physical stores have evolved into key nodes for last mile delivery. More retailers will set up in-store micro fulfilment centres with automated picking processes of about 10,000sf. Supermarkets and grocery stores are allocating larger parking areas to facilitate curb-side pickup. UHU will support tenants' omni-channel strategy to provide a seamless online and offline shopping experience by providing multiple methods for shoppers to pick up their online purchases.
- **Unlocking value for two self-storage properties.** United Hampshire US REIT (UHU) has entered into agreement for the sale of Elizabeth and Perth Amboy Self-storage properties to Storage Post for a consideration of US\$49m. The selling price is 26.7% above purchase price (excluding top-ups) and 10.4% above appraised valuation. Elizabeth and Perth Amboy Self-storage properties were recently completed in Jan 20 and Jan 21 respectively and achieved occupancy of 64.1% and 44.8% as of Dec 21.
- Management intends to reinvest proceeds from the divestment to higher yielding grocery & necessity properties. UHU will focus on acquiring strategically-located assets in neighbourhoods with limited competition and high barriers to entry.
- UHU would be able to recognise divestment gain of US\$3.1m. Aggregate leverage is estimated to drop from 39% to 34.3%, assuming the proceeds from divestment are fully utilised to repay borrowings. The divestment is expected to complete in 2Q22.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2020*	2021	2022F	2023F	2024F
Net turnover	42	55	65	65	66
EBITDA	27	37	44	45	44
Operating profit	27	37	44	45	44
Net profit (rep./act.)	6	46	39	36	35
Net profit (adj.)	22	25	35	36	35
EPU (US\$ cent)	4.4	4.8	6.3	6.3	6.0
DPU (US\$ cent)	4.8	6.1	6.6	6.3	6.3
PE (x)	14.0	13.0	9.9	9.9	10.3
P/B (x)	0.8	0.8	0.9	0.9	0.9
DPU Yld (%)	7.8	9.8	10.6	10.2	10.2
Net margin (%)	13.4	83.6	59.5	55.5	52.8
Net debt/(cash) to equity (%)	54.4	61.0	52.7	55.3	58.0
Interest cover (x)	4.8	5.1	5.8	6.0	5.7
ROE (%)	n.a.	11.6	9.3	8.7	8.5
Consensus DPU (US\$ cent)	n.a.	n.a.	6.2	6.4	6.5
UOBKH/Consensus (x)	-	-	1.06	0.99	0.97

\* Period from 12 Mar 20 to 31 Dec 20.

Source: United Hampshire US REIT, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	US\$0.62
Target Price	US\$0.97
Upside	+56.5%
(Previous TP)	US\$0.95

### COMPANY DESCRIPTION

UHREIT invests in income-producing real estate used primarily for grocery-anchored & necessity-based retail and self-storage purposes in the US.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	UHU SP
Shares issued (m):	558.7
Market cap (US\$m):	346.4
Market cap (US\$m):	346.4
3-mth avg daily t'over (US\$m):	0.2

### Price Performance (%)

52-week high/low US\$0.755/US\$0.60

1mth	3mth	6mth	1yr	YTD
(2.4)	(6.1)	(10.1)	(6.8)	(6.8)

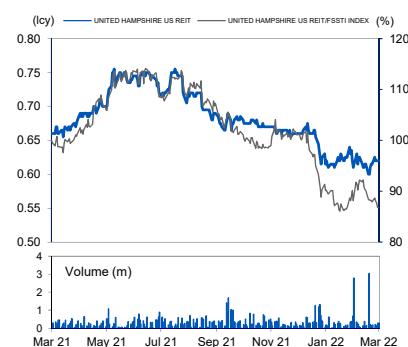
### Major Shareholders

	%
U.S. RE Fund II Offshore Feeder 1	8.0
The Hampshire Generational Fund LLC	8.0
Golden Sun (China)	5.9

FY22 NAV/Share (US\$) 0.73

FY22 Net Debt/Share (US\$) 0.38

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- 2H21 results met expectations.** Gross revenue and net property income (NPI) grew 7.9% and 8.7% yoy respectively in 2H21, driven by contribution from the newly acquired assets. UHU completed its inaugural acquisitions of Colonial Square on 12 Nov 21 and Penrose Plaza on 24 Nov 21. 2H21 DPU grew 0.7% yoy to 3.05 US cents. The number of units increased 12.4% due to private placement to raise US\$35m in Oct 21.
- Long WALE provides stable income.** UHU has executed 38 new and renewal leases totalling 437,528sf in 2021. Management has reduced leases expiring in 2022 to a minimal of 1.5%, down significantly from 9.2% at the start of this year. Committed occupancy for grocery & necessity properties remains healthy at 95.3% as of Dec 21. UHU has maintained long WALE of eight years.
- Conservative capital management.** UHU has a conservative aggregate leverage of 39.0% as of Dec 21. 79.6% of its total debt is hedged into fixed rates. It maintains a well staggered debt maturity profile to minimise refinancing risk. Its weighted average debt maturity is 2.5 years with no refinancing until 2023. Its weighted cost of debt is 2.63% and interest coverage ratio is healthy at 6.5x.
- Scaling up in grocery & necessity properties.** UHU has recognised gains in fair value of investment properties of US\$20m in 2H21. On a same store basis, UHU's portfolio valuation has increased 3.7% in 2021. The blended cap rate for the portfolio was 6.4% (grocery & necessity properties: 6.5%, self-storage properties: 5.3%). Inclusive of its newly acquired Colonial Square and Penrose Plaza valued at US\$81.5m, the size of UHU's portfolio has grown 17.6%.

### EARNINGS REVISION/RISK

- We forecast DPU of 6.6 US cents for 2022F and 6.3 US cents for 2023F after factoring in acquisition of Colonial Square and Penrose Plaza and divestment of the two self-storage properties.

### VALUATION/RECOMMENDATION

- Enticing and irresistible yield spread.** UHU trades at 2022F distribution yield of 10.6%, which represents an attractive yield spread of 8.2% above the 10-year US government bond yield of 2.4%. It trades at P/NAV of 0.83x.
- Maintain BUY.** Our target price of US\$0.97 is based on the dividend discount model (DDM) (cost of equity: 7.0%, terminal growth: 0.5%).

### SHARE PRICE CATALYST

- Recovery and normalisation of domestic consumption in the US.
- UHU provides enticing and irresistible yield.

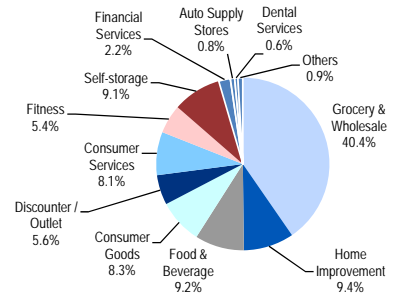
### KEY OPERATING METRICS - UHU

		1Q21	2Q21	3Q21	4Q21	yoy	qoq
DPU	US cents	n.a.	3.05	n.a.	3.05	0.7%	0.0%
Occupancy	%	93.9%	94.8%	95.5%	95.3%	0.6ppt	-0.2ppt
Aggregate Leverage	%	37.5%	36.4%	37.6%	39.0%	2.8ppt	1.4ppt
Average Cost of Debt	%	2.79%	2.85%	2.77%	2.63%	-0.2ppt	-0.1ppt
Weighted Average Lease Expiry (WALE)	year	8.1	8.0	8.1	8.0	-0.2yrs	-0.1yrs

Source: UHU, UOB Kay Hian

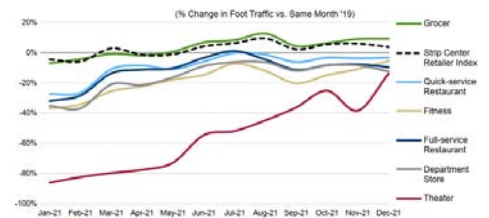
\* hoh % chg for DPU

### TRADE SECTOR BREAKDOWN BY BASE RENTAL INCOME (DEC 21)



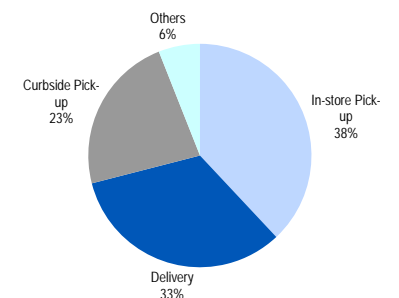
Source: UHU

### FOOT TRAFFIC BY RETAIL CATEGORY



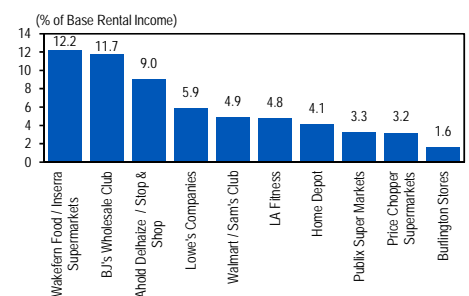
Source: UHU

### METHOD OF RECEIVING ONLINE GROCERY ORDERS



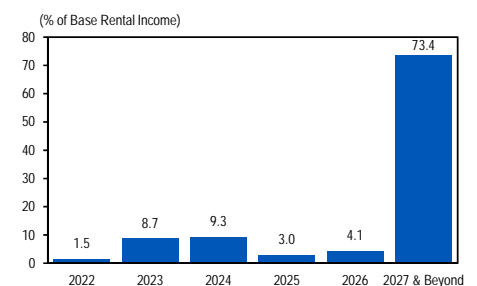
Source: UHU

### TOP 10 TENANTS



Source: UHU

### LEASE EXPIRY PROFILE BY BASE RENTAL INCOME



Source: UHU

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	55.2	64.8	64.7	65.6
EBITDA	36.9	44.5	45.4	44.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	36.9	44.5	45.4	44.4
Total other non-operating income	3.0	0.5	0.0	0.0
Net interest income/(expense)	(7.2)	(7.7)	(7.6)	(7.8)
Pre-tax profit	53.5	40.4	37.8	36.5
Tax	(6.9)	(1.6)	(1.7)	(1.7)
Minorities	(0.5)	(0.2)	(0.2)	(0.2)
Net profit	46.1	38.6	35.9	34.6
Net profit (adj.)	25.3	35.5	35.9	34.6

### BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	711.7	671.7	676.1	680.5
Other LT assets	0.0	0.0	0.0	0.0
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	11.2	13.9	13.5	14.9
Other current assets	6.7	7.6	7.7	7.7
<b>Total assets</b>	<b>729.5</b>	<b>693.1</b>	<b>697.2</b>	<b>703.1</b>
Other current liabilities	14.8	15.7	15.8	15.9
LT debt	265.6	232.0	240.0	250.0
Other LT liabilities	29.8	29.8	29.8	29.8
Shareholders' equity	417.0	413.7	409.6	405.3
Minority interest	2.3	2.0	2.0	2.0
<b>Total liabilities &amp; equity</b>	<b>729.5</b>	<b>693.1</b>	<b>697.2</b>	<b>703.1</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	36.9	84.5	38.5	38.8
Pre-tax profit	29.4	32.7	34.1	34.2
Deprec. & amort.	(1.8)	(1.8)	(1.8)	(1.8)
Working capital changes	1.2	(0.1)	0.0	0.0
Non-cash items	3.1	6.0	3.6	3.9
Other operating cashflows	4.9	47.6	2.6	2.5
Investing	(85.3)	(4.5)	(4.5)	(4.5)
Capex (growth)	(78.3)	0.0	0.0	0.0
Capex (maintenance)	(7.0)	(4.5)	(4.5)	(4.5)
Others	0.0	0.0	0.0	0.0
Financing	46.6	(77.2)	(34.4)	(33.0)
Distribution to unitholders	(31.2)	(37.3)	(36.2)	(36.6)
Issue of shares	35.0	0.0	0.0	0.0
Proceeds from borrowings	48.5	(33.6)	8.0	10.0
Others/interest paid	(5.8)	(6.3)	(6.2)	(6.4)
Net cash inflow (outflow)	(1.8)	2.7	(0.4)	1.3
Beginning cash & cash equivalent	13.0	11.2	13.9	13.5
Ending cash & cash equivalent	11.2	13.9	13.5	14.9

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	66.8	68.7	70.2	67.6
Pre-tax margin	96.9	62.4	58.4	55.7
Net margin	83.6	59.5	55.5	52.8
ROA	6.8	5.4	5.2	4.9
ROE	11.6	9.3	8.7	8.5
<b>Growth</b>				
Turnover	32.6	17.3	(0.0)	1.3
EBITDA	37.8	20.7	2.1	(2.3)
Pre-tax profit	788.1	(24.5)	(6.4)	(3.4)
Net profit	725.4	(16.4)	(6.9)	(3.6)
Net profit (adj.)	15.0	40.1	1.3	(3.6)
EPU	7.8	31.0	0.2	(4.6)
<b>Leverage</b>				
Debt to total capital	38.8	35.8	36.8	38.0
Debt to equity	63.7	56.1	58.6	61.7
Net debt/(cash) to equity	61.0	52.7	55.3	58.0
Interest cover (x)	5.1	5.8	6.0	5.7

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