

COMPANY RESULTS

United Hampshire US REIT (UHU SP)

1Q22: Physical Stores Making A Comeback

UHU benefitted from strong leasing momentum and occupancy for grocery & necessity retail properties improved 1.1ppt qoq to 96.4% in 1Q22, the highest since its IPO. Self-storage properties have registered an uptrend in occupancies. Management is on the lookout for yield-accretive acquisitions of strip centres along the East Coast. UHU provides 2022 distribution yield of 10.2% and yield spread of 7.3%. It trades at a 19% discount to NAV per share of US\$0.75. Maintain BUY. Target price: US\$0.92.

1Q22 RESULTS

Year to 31 Dec (US\$m)	1Q22	yoy % chg	Remarks
Gross Revenue	16.2	+20.0	Contributions from Colonial Square and Penrose Plaza.
Net Property Income	11.4	+13.1	1Q21 was a high base boosted by stipulated damages and top-up income.
Distributable income	8.1	+7.9	

Source: UHU, UOB Kay Hian

RESULTS

- **United Hampshire US REIT (UHU)** reported growth in gross revenue and net property income (NPI) of 20% and 13.1% yoy respectively for 1Q22 with contributions from its inaugural acquisitions of Colonial Square and Penrose Plaza, which were completed in Nov 21. Distributable income increased 7.9% yoy to US\$8.1m.
- **Grocery & necessity retail properties: Benefitting from strong leasing momentum.** Occupancy of Grocery & Necessity Retail Properties improved 1.1ppt qoq to 96.4% in 1Q22, the highest since its IPO. Occupancy at Towne Crossing in the state of New Jersey improved by 25.5ppt qoq to 93.4%. UHU has backfilled the final 2,788sf of retail space at Fairheaven Plaza in the state of Massachusetts, which is currently 100% leased. UHU executed a total of 10 new and renewal leases covering 79,928sf of retail space in 1Q22. New tenants were from the food & beverage (two tenants), fitness (one tenant), discounter/outlet (one tenant) and consumer services (one tenant) sectors.
- **Self-storage properties: Occupancies on an upward trend.** Occupancy at Carteret self-storage property improved 4.4ppt qoq to 92.5% in 1Q22. Similarly, occupancy at Millburn self-storage property improved 1.4ppt qoq to 96.2%. UHU has entered into an agreement for the sale of Elizabeth and Perth Amboy Self Storage Properties to Storage Post for US\$45.5m. The selling price is 17.7% above purchase price (excluding top-ups) and 2.5% above appraised valuation. The divestment is expected to complete in 2Q22.
- **Resiliency from long WALE.** UHU's grocery & necessity retail properties provide long weighted average lease to expiry (WALE) of 7.8 years and income stability.
- **Sheltered from rising cost of utilities.** Majority of its leases for grocery & necessity retail properties are triple net, whereby tenants are responsible for their pro-rata share of operating expenses. Thus, UHU is not unduly affected by higher cost of utilities.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020*	2021	2022F	2023F	2024F
Net turnover	42	55	66	65	66
EBITDA	27	37	44	45	44
Operating profit	27	37	44	45	44
Net profit (rep./fact.)	6	46	34	34	33
Net profit (adj.)	22	25	33	34	33
EPU (US\$ cent)	4.4	4.8	5.9	6.0	5.7
DPU (US\$ cent)	4.8	6.1	6.2	6.0	6.0
PE (x)	13.7	12.8	10.4	10.2	10.7
P/B (x)	0.8	0.8	0.8	0.9	0.9
DPU Yld (%)	7.9	10.0	10.2	9.9	9.9
Net margin (%)	13.4	83.6	52.3	52.2	49.4
Net debt/(cash) to equity (%)	54.4	61.0	53.2	55.7	58.4
Interest cover (x)	4.8	5.1	5.1	4.9	4.7
ROE (%)	n.a.	11.6	8.3	8.3	8.1
Consensus DPU (US\$ cent)	n.a.	n.a.	6.5	6.5	6.3
UOBKH/Consensus (x)	-	-	0.96	0.93	0.96

Source: United Hampshire US REIT, Bloomberg, UOB Kay Hian
* Period from 12 Mar 20 to 31 Dec 20.

BUY

(Maintained)

Share Price	US\$0.61
Target Price	US\$0.92
Upside	+50.8%
(Previous TP)	US\$0.97

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):	340.8
Market cap (US\$m):	340.8
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

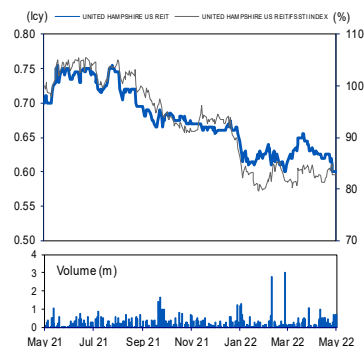
52-week high/low	US\$0.755/US\$0.60			
1mth	3mth	6mth	1yr	YTD
(4.7)	(3.2)	(9.0)	(12.9)	(8.3)

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\$)	0.39

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Prudent capital management.** UHU has conservative aggregate leverage of 38.9% as of Mar 22. Its weighted average debt maturity is 2.3 years and does not have any bank loans due for refinancing till Mar 23. 79.6% of UHU's borrowings are hedged with fixed interest rates. Management estimated that every 50bp increase in London Interbank Offered Rate/Secured Overnight Financing Rate has a negative impact on DPU of 0.051 US cents. Cost of debt was 2.9% in 1Q22. Assuming that the fed funds rate averages 2.5% in 2023, we estimate that average cost of debt will increase to 3.3%.

STOCK IMPACT

• **Consumers prioritising consumption of necessities.** Consumers are expected to pullback from discretionary spending but will devote a larger share of their wallets on purchases of day-to-day necessities at strip centres in their neighbourhood. According to US Census Bureau, grocery sales increased 8.6% yoy in Feb 22 and accelerated to a growth of 9.5% yoy in Mar 22. Spending on essentials is expected to be maintained despite uncertainties caused by heightened geopolitical tension and higher inflation.

• **Shoppers heading back to physical stores.** Foot traffic at UHU's open-air strip centres have rebounded since COVID-19 vaccines became widely available. Americans are eager to get back to shopping and dining out due to pent-up demand. Growth in e-commerce sales was 39.3% yoy in 1Q21 but subsequently slowed to an average of 8.3% yoy during 2Q-4Q21. E-commerce sales peaked at 15.7% of total retail sales in 2Q20 and have since slipped to 12.9% in 4Q21. According to Mastercard SpendingPulse, sales at physical stores increased 11.2% yoy compared with a drop of 3.3% yoy for online spending in Mar 22.

• **Supporting tenants' omni-channel strategy.** Retailers realised that omni-channel consumers who shop both online and at physical stores tend to spend more. 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, including curbside pick-up for online orders, buy online pick-up in store (BOPIS) and micro-fulfilment of online orders.

• **Physical stores are back in focus.** Physical stores have evolved into key nodes for last mile delivery. Supermarkets and grocery stores are allocating larger parking areas to facilitate curbside pickup. More retailers will set up in-store micro fulfilment centres with automated picking processes of about 10,000sf. Walmart plans to add 100 automated fulfilment centres attached to their existing physical stores. Amazon has experimented with small department stores to showcase its line of private labels and exclusive third-party products.

• **Maintain focus on the East Coast.** According to management, cap rates for grocery-anchored neighbourhoods and community strip centres were stable at 5.5-6.0%. Management is on the lookout for acquisitions of grocery & necessity retail properties strategically located in neighbourhoods with limited competition. UHU will continue to focus on expansion along the East Coast.

EARNINGS REVISION/RISK

• We trim our 2022 DPU forecast by 5% due to higher interest rates and cost of debt.

VALUATION/RECOMMENDATION

• **Enticing and irresistible yield spread.** UHU trades at 2022 distribution yield of 10.2%, which represents an attractive yield spread of 7.3% above the 10-year US government bond yield of 2.9%. It trades at P/NAV of 0.81x.

• **Maintain BUY.** Our target price of US\$0.92 is based on the dividend discount model (DDM) (cost of equity: 7.0%, terminal growth: 0.5%).

SHARE PRICE CATALYST

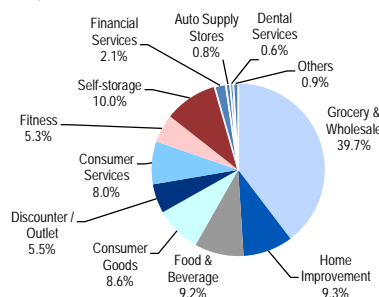
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery & necessity retail properties.

KEY OPERATING METRICS - UHU

		1Q21	2Q21	3Q21	4Q21	1Q22	yoy	qoq
DPU	US cents	n.a.	3.05	n.a.	3.05	n.a.	n.a.	n.a.
Occupancy	%	93.9%	94.8%	95.5%	95.3%	96.4%	2.5ppt	1.1ppt
Aggregate Leverage	%	37.5%	36.4%	37.6%	39.0%	38.9%	1.4ppt	-0.1ppt
Average Cost of Debt	%	2.79%	2.85%	2.77%	2.63%	2.89%	0.1ppt	0.3ppt
Weighted Average Lease Expiry (WALE)	year	8.1	8.0	8.1	8.0	7.8	-0.3yrs	-0.2yrs

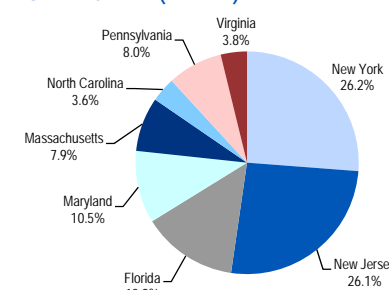
Source: UHU, UOB Kay Hian * hoh % chg for DPU

BASE RENTAL INCOME BY TRADE SECTOR (MAR 22)



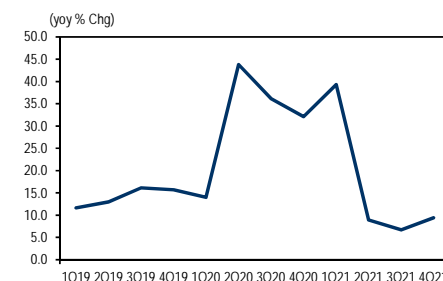
Source: UHU

AUM BY STATE (MAR 22)



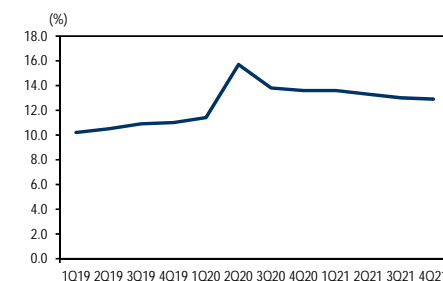
Source: UHU

E-COMMERCE SALES



Source: US Census Bureau

E-COMMERCE AS % OF TOTAL RETAIL SALES



Source: US Census Bureau

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	55.2	65.5	65.4	66.3
EBITDA	36.9	43.5	45.1	44.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	36.9	43.5	45.1	44.1
Total other non-operating income	3.0	0.0	0.0	0.0
Net interest income/(expense)	(7.2)	(8.5)	(9.2)	(9.5)
Pre-tax profit	53.5	36.0	35.9	34.6
Tax	(6.9)	(1.6)	(1.6)	(1.6)
Minorities	(0.5)	(0.2)	(0.2)	(0.2)
Net profit	46.1	34.2	34.1	32.8
Net profit (adj.)	25.3	33.2	34.1	32.8

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	14.5	14.3	15.9
Other current assets	6.7	7.6	7.7	7.8
Total assets	729.5	693.8	698.1	704.1
Other current liabilities	14.8	15.8	15.9	16.0
LT debt	265.6	234.0	242.0	252.0
Other LT liabilities	29.8	29.8	29.8	29.8
Shareholders' equity	417.0	412.2	408.4	404.3
Minority interest	2.3	2.0	2.0	2.0
Total liabilities & equity	729.5	693.8	698.1	704.1

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	36.9	81.7	38.5	38.8
Pre-tax profit	29.4	31.1	32.4	32.4
Deprec. & amort.	(1.8)	(1.8)	(1.8)	(1.8)
Working capital changes	1.2	(0.0)	0.0	0.0
Non-cash items	3.1	5.4	3.4	3.7
Other operating cashflows	4.9	47.0	4.5	4.4
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	(73.9)	(34.2)	(32.8)
Distribution to unitholders	(31.2)	(35.1)	(34.4)	(34.7)
Issue of shares	35.0	0.0	0.0	0.0
Proceeds from borrowings	48.5	(31.6)	8.0	10.0
Others/interest paid	(5.8)	(7.1)	(7.8)	(8.1)
Net cash inflow (outflow)	(1.8)	3.3	(0.2)	1.5
Beginning cash & cash equivalent	13.0	11.2	14.5	14.3
Ending cash & cash equivalent	11.2	14.5	14.3	15.9

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.8	66.4	69.0	66.5
Pre-tax margin	96.9	55.0	54.9	52.2
Net margin	83.6	52.3	52.2	49.4
ROA	6.8	4.8	4.9	4.7
ROE	11.6	8.3	8.3	8.1
Growth				
Turnover	32.6	18.7	(0.2)	1.3
EBITDA	37.8	18.1	3.7	(2.4)
Pre-tax profit	788.1	(32.7)	(0.2)	(3.8)
Net profit	725.4	(25.8)	(0.4)	(4.0)
Net profit (adj.)	15.0	31.4	2.6	(4.0)
EPU	7.8	23.0	1.6	(4.9)
Leverage				
Debt to total capital	38.8	36.1	37.1	38.3
Debt to equity	63.7	56.8	59.3	62.3
Net debt/(cash) to equity	61.0	53.2	55.7	58.4
Interest cover (x)	5.1	5.1	4.9	4.7

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