

COMPANY RESULTS

United Hampshire US REIT (UHU SP)

1H22: Resiliency And Stability From Provisions Of Essential Services

1H22 NPI grew 10.6% yoy with full contributions from newly-acquired Colonial Square and Penrose Plaza. Occupancy for grocery & necessity retail properties was stable at 96.2% in 2Q22. UHU has completed the acquisition of Upland Square Shopping Center in Pennsylvania for US\$85.7m on 28 Jul 22. Management is on the lookout for more yield-accretive acquisitions along the East Coast. UHU provides 2023 distribution yield of 9.3% and trades at 18% discount to NAV per unit. Maintain BUY. Target price: US\$0.83.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H22	Yoy % Chg	Remarks
Gross Revenue	31.8	+18.5	Full contributions from Colonial Square and Penrose Plaza.
Net Property Income (NPI)	22.6	+10.6	
Distributable income	16.3	+7.2	
DPU (US cents)	2.91	-4.6	1H21 was a high base boosted by stipulated damages and top-up income.
Adjusted DPU (US cents)	2.88	+13.4	Distribution Reinvestment Plan is applicable to 1H22 DPU.

Source: UHU, UOB Kay Hian

RESULTS

- **United Hampshire US REIT (UHU)** reported 1H22 DPU of 2.91 US cents (-4.6% yoy), which is in line with our expectations. Adjusting for top-ups and stimulated damages received in 1H21, 1H22 would have increased 13.4% yoy. The Distribution Reinvestment Plan is applicable to the 1H22 DPU.
- **Maiden acquisition started to contribute.** Gross revenue and NPI grew 18.5% and 10.6% yoy respectively for 1H22 with full six-month contributions from its inaugural acquisition of Colonial Square and Penrose Plaza, which was completed in Nov 21.
- **Grocery & necessity retail properties: Providing income stability.** Occupancy of grocery & necessity retail properties was stable at 96.2% as of Jun 22. UHU executed a total of 13 new and renewal leases covering 150,012sf of retail space in 1H22. It has maintained long weighted average lease expiry of 8.0 years.
- **Self-storage properties: Rents on an upward trajectory.** Occupancies at self-storage properties Carteret and Millburn were 94.7% and 97.5% respectively as of Jun 22. Average quarterly net rent rate for Carteret and Millburn increased 31% and 35% yoy respectively to US\$22.60 and US\$24.40. The divestment of Elizabeth and Perth Amboy Self Storage Properties to Storage Post for US\$45.5m was completed on 22 Jun 22.
- **Sheltered from rising cost of utilities.** Majority of UHU's 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	69	70
EBITDA	27	37	44	48	47
Operating profit	27	37	44	48	47
Net profit (rep./act.)	6	46	35	33	31
Net profit (adj.)	22	25	33	33	31
EPU (US\$ cent)	4.4	4.8	5.8	5.8	5.3
DPU (US\$ cent)	4.8	6.1	6.2	5.8	5.7
PE (x)	14.1	13.1	10.8	10.9	11.7
P/B (x)	0.8	0.8	0.8	0.8	0.9
DPU Yld (%)	7.7	9.8	9.9	9.3	9.1
Net margin (%)	13.4	83.6	52.4	47.2	43.6
Net debt/(cash) to equity (%)	54.4	61.0	71.4	73.7	76.3
Interest cover (x)	4.8	5.1	5.1	3.6	3.3
ROE (%)	n.a.	11.6	8.2	7.7	7.3
Consensus DPU (US\$ cent)	n.a.	n.a.	6.4	6.3	6.4
UOBKH/Consensus (x)	-	-	0.97	0.92	0.89

* Period from 12 Mar 20 to 31 Dec 20.

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

BUY

(Maintained)

Share Price	US\$0.625
Target Price	US\$0.83
Upside	+32.8%
(Previous TP)	US\$0.90

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):	560.0
Market cap (US\$m):	350.0
Market cap (US\$m):	350.0
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low	US\$0.745/US\$0.595			
1mth	3mth	6mth	1yr	YTD
1.6	2.5	(0.8)	(16.7)	(6.0)

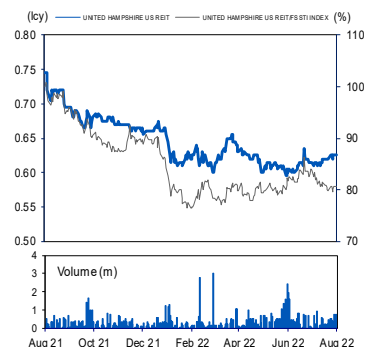
Major Shareholders

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\$) 0.75

FY22 Net Debt/Share (US\$) 0.54

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Prudent capital management.** UHU has a conservative aggregate leverage of 38.0% as of Jun 22. Its weighted average debt maturity is 2.0 years. Cost of debt edged higher by 0.1ppt qoq to 3.0% in 2Q22. 80.5% of UHU's borrowings are hedged with fixed interest rates. Management estimated that every 50bp increase in LIBOR/SOFR reduces DPU by 0.048 US cents.

STOCK IMPACT

• **Consumers prioritising consumption of necessities.** Consumers are expected to pull back from discretionary spending but will devote a larger share of their wallets on day-to-day necessities at strip centres in their neighbourhood. According to US Census Bureau, retail & food services (excluding motor vehicles and parts) grew 10.6% yoy and 1.0% mom in Jun 22. Grocery sales increased 8.3% yoy and 0.6% mom. Consumption continues to be supported by a strong labour market and growth in wages. Spending on essentials is expected to be maintained despite erosion of purchasing power caused by higher inflation.

• Tenants providing essential services accounted for 67.5% of UHU's base rental income as of Jun 22.

• **Building scale brick by brick.** UHU has completed the acquisition of Upland Square Shopping Center in Pottstown, Montgomery County (third highest populous county), Pennsylvania for US\$85.7m on 28 Jul 22. The acquisition increased the size of UHU's portfolio by 6% and expanded UHU's exposure to the state of Pennsylvania from 7.3% to 17.7% of base rental income. The anchor tenant is Giant by Ahold Delhaize and three dominant national off-price retailers, namely Burlington, Ross and TJ Maxx. Upland Square Shopping Center provides NPI yield of 6.5%. The acquisition is accretive to pro forma 2021 DPU by 2.1%.

• **Maintain focus on the East Coast.** According to management, cap rates for grocery-anchored neighbourhood 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.

• **Supporting tenants' omni-channel strategy.** The role of physical stores is enhanced as they also serve as a hub for fulfilment of online orders. UHU will support tenants' omni-channel strategy 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. Fundamentals for strip centres are positive due to limited supply.

EARNINGS REVISION/RISK

• UHU has bank loans of US\$94.5m due for refinancing in Mar 23. Its weighted cost of debt would increase to 3.9% assuming the bank loans are refinanced at an interest rate of 4.0%. Thus, we cut our 2023 DPU by 5%

VALUATION/RECOMMENDATION

• **Enticing and irresistible yield spread.** UHU trades at 2023 distribution yield of 9.3%, which represents an attractive yield spread of 6.5% above the 10-year US government bond yield of 2.8%. It trades at P/NAV of 0.82x.

• **Maintain BUY.** Our target price of US\$0.83 is based on the dividend discount model (DDM) (cost of equity: 8.0%, terminal growth: 1.3%).

SHARE PRICE CATALYST

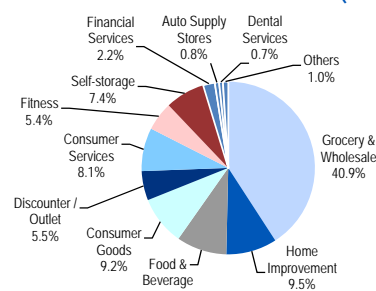
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery & necessity retail properties.

KEY OPERATING METRICS - UHU

		1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy	qoq*
DPU	US cents	n.a.	3.05	n.a.	3.05	n.a.	2.91	-4.6%	-4.6%
Occupancy	%	93.9%	94.8%	95.5%	95.3%	96.4%	96.2%	1.4ppt	-0.2ppt
Aggregate Leverage	%	37.5%	36.4%	37.6%	39.0%	38.9%	38.0%	1.6ppt	-0.9ppt
Average Cost of Debt	%	2.79%	2.85%	2.77%	2.63%	2.89%	3.00%	0.2ppt	0.1ppt
Weighted Average Lease Expiry (WALE)	year	8.1	8.0	8.1	8.0	7.8	8.0	0yrs	0.2yrs

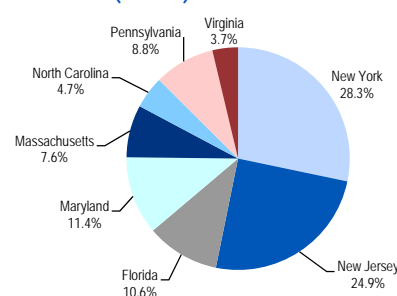
Source: UHU, UOB Kay Hian * hoh % chg for DPU

BASE RENTAL INCOME BY TRADE SECTOR (JUN 22)



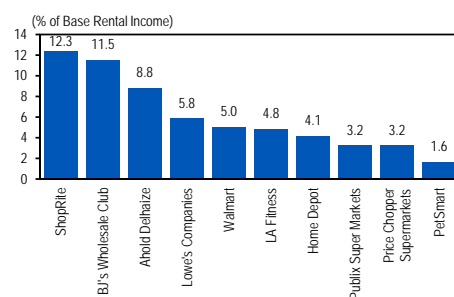
Source: UHU

NPI BY STATE (JUN 22)



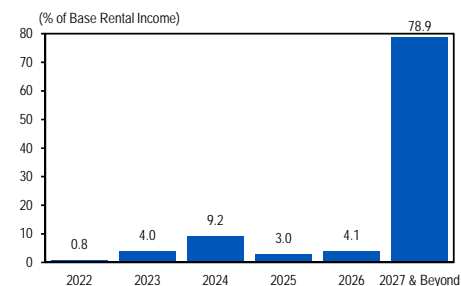
Source: UHU

TOP 10 TENANTS - GROCERY & NECESSITY RETAIL PROPERTIES



Source: UHU

LEASE EXPIRY PROFILE - GROCERY & NECESSITY RETAIL PROPERTIES



Source: UHU

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	55.2	66.1	69.3	70.2
EBITDA	36.9	43.6	47.6	46.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	36.9	43.6	47.6	46.5
Total other non-operating income	3.0	0.2	0.0	0.0
Net interest income/(expense)	(7.2)	(8.5)	(13.1)	(14.2)
Pre-tax profit	53.5	37.3	34.5	32.4
Tax	(6.9)	(2.5)	(1.6)	(1.5)
Minorities	(0.5)	(0.2)	(0.2)	(0.2)
Net profit	46.1	34.7	32.7	30.6
Net profit (adj.)	25.3	32.6	32.7	30.6

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	711.7	762.5	766.9	771.3
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	11.2	13.5	14.6	16.6
Other current assets	6.7	7.9	8.0	8.1
Total assets	729.5	783.9	789.5	795.9
ST debt	0.0	94.3	0.0	0.0
Other current liabilities	14.8	10.4	10.5	10.6
LT debt	265.6	222.0	325.0	335.0
Other LT liabilities	29.8	30.8	30.8	30.8
Shareholders' equity	417.0	424.3	421.1	417.4
Minority interest	2.3	2.0	2.0	2.0
Total liabilities & equity	729.5	783.9	789.5	795.9

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	39.3	83.5	41.6	41.7
Pre-tax profit	29.4	32.2	31.5	30.5
Deprec. & amort.	(1.7)	(1.8)	(1.8)	(1.8)
Working capital changes	3.6	0.2	0.1	0.1
Non-cash items	3.1	4.5	2.8	3.3
Other operating cashflows	4.9	48.5	9.0	9.6
Investing	(82.6)	(90.2)	(4.5)	(4.5)
Capex (growth)	(78.4)	(85.7)	0.0	0.0
Capex (maintenance)	(4.2)	(4.5)	(4.5)	(4.5)
Others	0.0	0.0	0.0	0.0
Financing	41.4	8.9	(35.9)	(35.3)
Distribution to unitholders	(39.0)	(35.0)	(32.9)	(32.5)
Issue of shares	35.0	0.0	0.0	0.0
Proceeds from borrowings	56.0	50.7	8.7	10.0
Others/interest paid	(10.6)	(6.8)	(11.7)	(12.8)
Net cash inflow (outflow)	(1.8)	2.3	1.1	1.9
Beginning cash & cash equivalent	13.0	11.2	13.5	14.6
Ending cash & cash equivalent	11.2	13.5	14.6	16.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.8	65.9	68.6	66.3
Pre-tax margin	96.9	56.5	49.8	46.1
Net margin	83.6	52.4	47.2	43.6
ROA	6.8	4.6	4.2	3.9
ROE	11.6	8.2	7.7	7.3
Growth				
Turnover	32.6	19.7	4.9	1.3
EBITDA	37.8	18.2	9.2	(2.2)
Pre-tax profit	788.1	(30.2)	(7.6)	(6.2)
Net profit	725.4	(24.9)	(5.5)	(6.4)
Net profit (adj.)	15.0	28.7	0.5	(6.4)
EPU	7.8	20.9	(0.6)	(7.1)
Leverage				
Debt to total capital	38.8	42.6	43.4	44.4
Debt to equity	63.7	74.5	77.2	80.3
Net debt/(cash) to equity	61.0	71.4	73.7	76.3
Interest cover (x)	5.1	5.1	3.6	3.3

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