

COMPANY RESULTS

United Hampshire US REIT (UHU SP)

3Q23: Resilient And Attractive Yield From Strip Centres With Long WALE

UHU provides stability amid the current geopolitical uncertainties. Its strip centres in suburban locations have outperformed other asset classes due to entrenched hybrid work arrangements. They cater to necessity spending and have a long WALE of 7.2 years. Management has switched to paying management fees fully in cash to protect unitholders' interest. UHU provides resilient and attractive 2024 distribution yield of 11.7% and trades at P/NAV of 0.56x. Maintain BUY. Target price: US\$0.60.

3Q23 RESULTS

Year to 31 Dec (US\$m)	3Q23	yoy % Chg	Remarks
Gross Revenue	18.4	+8.2	Contribution from newly-acquired Upland Square and organic
Net Property Income (NPI)	12.9	+8.4	growth from its existing properties.
Distributable Income	7.1	-14.5	Switched to paying management fees fully in cash.

Source: UHU, UOB Kay Hian

RESULTS

- **United Hampshire US REIT (UHU)** reported distributable income of US\$7.1m for 3Q23 (-14.5% yoy). The decline was caused by a change in policy as the manager has elected to receive management fees of S\$0.8m fully in cash. On a like-for-like basis, distributable income decreased by a smaller 4.8% yoy.
- **Growing organically and via acquisitions.** Gross revenue and NPI grew 8.5% and 8.7% yoy respectively for 3Q23, driven by its third and largest acquisition of Upland Square in Pottstown, Pennsylvania (completion: 28 Jul 22), positive rental reversion from new and renewed leases, and rental escalation from its existing properties.
- **Resiliency from long WALE.** UHU signed eight new and renewal leases totalling 97,098sf in 3Q23 (two new leases and six renewals). It achieved positive low single-digit rental reversion in 9M23. It has maintained high tenant retention ratio of 92% since its IPO. Committed occupancy eased 0.7ppt qoq to 97.2% in 3Q23. UHU's grocery and necessity properties have a long WALE of 7.2 years. There is minimal roll-over risk with leases expiring in 2024 accounting for only 3.4% of base rental income.
- **Resiliency from essential services.** As of end-Sep 23, 63.6% of UHU's base rental income was derived from tenants providing essential services. Its triple net leases require tenants to reimburse the landlord for property taxes, insurance and maintenance for common areas, which shelter UHU from the negative impact of inflation. Leases for anchor tenants typically have built-in rental escalation of 5-10% for every 5-10 years. Tenants typically do not have early termination rights.
- **Self-storage properties: Rents on an upward trajectory.** Occupancies at self-storage properties Carteret and Millburn were 89.2% and 92.1% respectively as of Sep 23. Average net rent rate for Carteret and Millburn increased 6.5% and 7.5% yoy respectively to US\$24.50 and US\$27.40psf per year in 3Q23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	55	67	72	73	74
EBITDA	37	43	49	48	50
Operating profit	37	43	49	48	50
Net profit (rep./act.)	46	28	30	29	31
Net profit (adj.)	25	28	30	29	31
EPU (US\$ cent)	4.8	4.9	5.3	5.0	5.3
DPU (US\$ cent)	6.1	5.9	4.7	4.6	4.6
PE (x)	7.9	7.7	7.1	7.6	7.1
P/B (x)	0.5	0.5	0.5	0.5	0.5
DPU Yld (%)	16.1	15.5	12.3	12.1	12.1
Net margin (%)	83.6	41.6	41.1	39.4	41.8
Net debt/(cash) to equity (%)	61.0	71.1	72.0	72.8	73.6
Interest cover (x)	5.1	3.6	3.2	3.0	3.1
ROE (%)	11.6	6.7	7.0	6.7	7.2
Consensus DPU (US\$ cent)	n.a.	n.a.	5.2	5.4	5.5
UOBKH/Consensus (x)	-	-	0.90	0.85	0.84

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

BUY

(Maintained)

Share Price	US\$0.38
Target Price	US\$0.60
Upside	+57.9%
(Previous TP)	US\$0.76

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):	581.7
Market cap (US\$m):	221.0
Market cap (US\$m):	221.0
3-mth avg daily t'over (US\$m):	0.2
Price Performance (%)	

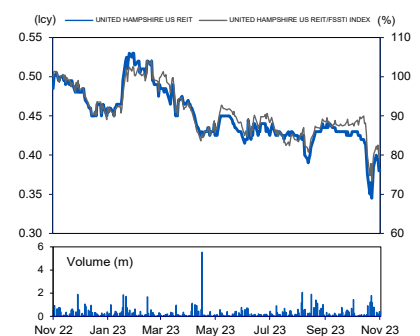
52-week high/low US\$0.53/US\$0.345

1mth	3mth	6mth	1yr	YTD
(10.6)	(10.6)	(13.6)	(22.4)	(18.3)

Major Shareholders

	%
U.S. RE Fund II Offshore Feeder 1	7.7
The Hampshire Generational Fund LLC	8.0
Golden Sun (China)	5.9
FY23 NAV/Share (US\$)	0.74
FY23 Net Debt/Share (US\$)	0.54

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Opportunistic divestment.** On 25 Aug 23, UHU completed the divestment of Big Pine Center at Florida for US\$9.9m, which is 3.7% above the appraised value of US\$9.5m and 7.7% above the purchase price of US\$9.2m. The net proceeds from divestment were utilised to repay existing debt.
- Prudent capital management.** Aggregate leverage improved 0.3ppt qoq 41.7% as of Sep 23 due to the divestment of Big Pine Center. Weighted average interest rate on a trailing 12-month basis rose 0.47ppt qoq to 4.04% in 3Q23 (excluding upfront costs). Interest coverage ratio remains healthy at 2.7x. About 81% of its borrowings are hedged to fixed rates.
- Successfully completed refinancing for 2023-24.** UHU's key bankers are Canadian Imperial Bank of Commerce (Bloomberg ticker: CM CN) and M&T Bank (Bloomberg ticker: MTB US). It has completed the refinancing of its term loans due in 2023 and 2024. It only has a small mortgage loan of US\$21.1m maturing in Mar 24. There is no significant refinancing requirement until Nov 26. The weighted average debt maturity was 3.2 years.

STOCK IMPACT

- Strip centres benefit from hybrid and remote work arrangements** as consumers are spending more time at home at suburban locations than city centres where their offices are located. Thus, foot traffic at strip centres has recovered to pre-pandemic levels. Physical retail at strip centres also serve to fulfil e-commerce orders and process returns. Thus, asking rents at suburban locations are growing.
- Strip centres at the forefront of retail recovery.** Retail real estate is recovering after many years of minimal construction. According to CBRE, availability for neighbourhood and community strip centres saw the largest drop of 0.5ppt yoy to a record low of 6.6% in 3Q23. Retailers are redesigning the layout of their stores to align and complement the usage of e-commerce app and mobile devices.
- Asset enhancement initiative (AEI).** UHU has invested US\$12m to develop a new 63,000sf store on excess land within its St Lucie West property in Florida. Academy Sports + Outdoors, a Fortune 500 sporting goods retailer has leased the new store for 15 years. Construction was completed ahead of schedule and Academy Sports has commenced interior build-out. The new store is scheduled to open in Nov 24, ahead of the festive season, and provides high single-digit ROI.

EARNINGS REVISION/RISK

- We cut our 2024 DPU forecast by 15% due to the change to paying management fees in cash rather than new units as well as the divestment of Big Pine Center.

VALUATION/RECOMMENDATION

- Attractive and irresistible yield spread.** UHU trades at 2024 distribution yield of 11.7%, which represents an attractive yield spread of 7.1% above the 10-year US government bond yield of 4.6%. It trades at P/NAV of 0.56x.
- Maintain BUY.** Our target price of US\$0.60 is based on the dividend discount model (cost of equity: 9.0% (previous: 8.5%), terminal growth: 1.5%).

SHARE PRICE CATALYST

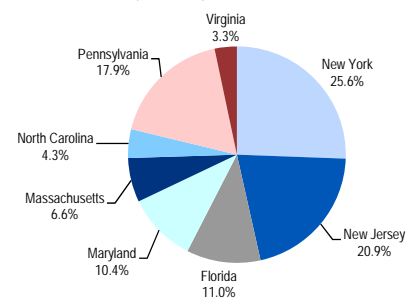
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery & necessity retail properties.

KEY OPERATING METRICS

		3Q22	4Q22	1Q23	2Q23	3Q23	yoy	qoq*
DPU	US cents	n.a.	2.97	n.a.	2.65	n.a.	n.a.	n.a.
Occupancy	%	96.7%	96.9%	97.0%	97.9%	97.2%	0.5ppt	-0.7ppt
Aggregate Leverage	%	42.1%	41.8%	42.6%	42.0%	41.7%	-0.4ppt	-0.3ppt
Average Cost of Debt	%	3.05%	2.77%	3.02%	3.57%	4.04%	1ppt	0.5ppt
Weighted Average Lease Expiry (WALE)	year	7.6	7.5	7.4	7.2	7.2	-0.4yrs	0yrs
Weighted Debt Maturity	year	2.1	4.0	3.7	3.5	3.2	1.1yrs	-0.3yrs
% Borrowing in Fixed Rates	%	82.0	81.4	80.2	80.9	80.9	-1.3%	0.0%

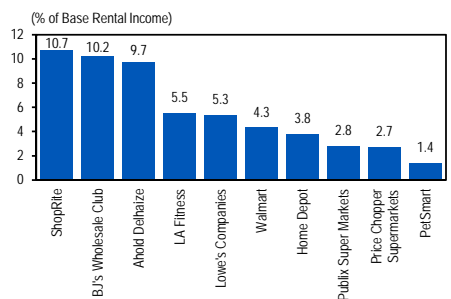
Source: UHU, UOB Kay Hian * hoh % chg for DPU

NPI BY STATE (JUN 23)



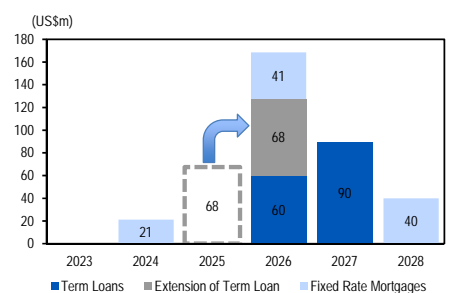
Source: UHU

TOP-10 TENANTS – GROCERY & NECESSITY RETAIL PROPERTIES



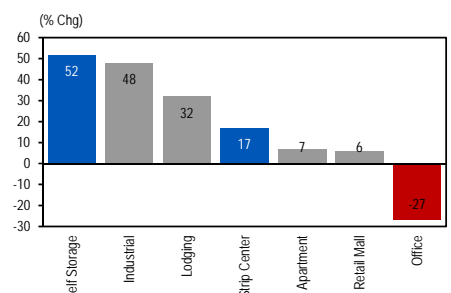
Source: UHU

DEBT MATURITY PROFILE



Source: UHU

GREEN STREET COMMERCIAL PROPERTY PRICE INDEX (JUN 20 TO SEP 23)



Source: UHU

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	67.5	71.8	72.6	73.6
EBITDA	43.4	49.2	47.9	50.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	43.4	49.2	47.9	50.3
Total other non-operating income	0.2	0.0	0.0	0.0
Net interest income/(expense)	(12.2)	(15.5)	(15.9)	(16.1)
Pre-tax profit	31.6	32.8	32.0	34.2
Tax	(3.1)	(3.1)	(3.2)	(3.2)
Minorities	(0.4)	(0.2)	(0.2)	(0.2)
Net profit	28.0	29.5	28.6	30.8
Net profit (adj.)	27.8	30.4	28.6	30.8

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	761.1	763.5	768.0	772.5
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	12.2	13.6	13.8	15.9
Other current assets	12.6	11.8	11.9	12.0
Total assets	785.9	788.9	793.6	800.4
ST debt	0.0	21.1	21.1	21.1
Other current liabilities	12.3	10.9	11.1	11.2
LT debt	314.3	298.0	302.0	308.0
Other LT liabilities	31.7	32.7	32.7	32.7
Shareholders' equity	425.1	424.1	424.7	425.3
Minority interest	2.5	2.0	2.0	2.0
Total liabilities & equity	785.9	788.9	793.6	800.4

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	43.6	46.2	41.8	42.3
Pre-tax profit	28.8	30.4	30.4	30.7
Deprec. & amort.	(1.7)	(1.8)	(1.8)	(1.8)
Working capital changes	7.5	2.5	0.2	0.1
Non-cash items	3.3	3.2	3.0	3.3
Other operating cashflows	5.7	12.0	10.0	10.0
Investing	(9.8)	(6.1)	(4.5)	(4.5)
Capex (growth)	(47.6)	0.0	0.0	0.0
Capex (maintenance)	(6.2)	(16.0)	(4.5)	(4.5)
Proceeds from sale of assets	43.9	9.9	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(32.8)	(38.7)	(37.2)	(35.6)
Distribution to unitholders	(21.4)	(29.7)	(26.4)	(26.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	3.4	4.8	4.0	6.0
Others/interest paid	(14.7)	(13.9)	(14.7)	(14.9)
Net cash inflow (outflow)	1.0	1.4	0.2	2.2
Beginning cash & cash equivalent	11.2	12.2	13.6	13.8
Ending cash & cash equivalent	12.2	13.6	13.8	15.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	64.3	68.5	66.0	68.3
Pre-tax margin	46.9	45.7	44.0	46.4
Net margin	41.6	41.1	39.4	41.8
ROA	3.7	3.7	3.6	3.9
ROE	6.7	7.0	6.7	7.2
Growth				
Turnover	22.2	6.4	1.1	1.4
EBITDA	17.6	13.5	(2.6)	5.0
Pre-tax profit	(40.9)	3.9	(2.6)	6.8
Net profit	(39.2)	5.3	(3.2)	7.6
Net profit (adj.)	9.8	9.5	(6.1)	7.6
EPU	3.1	8.5	(6.8)	6.7
Leverage				
Debt to total capital	42.4	42.8	43.1	43.5
Debt to equity	73.9	75.2	76.1	77.4
Net debt/(cash) to equity	71.1	72.0	72.8	73.6
Interest cover (x)	3.6	3.2	3.0	3.1

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