

COMPANY RESULTS

United Hampshire US REIT (UHU SP)

2H23: Resilient And Attractive Yield From Strip Centres With Long WALE

UHU's 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 7.1 years. Portfolio valuation increased 4.7%, reflecting higher occupancies and rising rents for its strip centres. UHU provides a resilient and attractive 2024 distribution yield of 10.2% and trades at P/NAV of 0.62x. Maintain BUY. Target price: US\$0.68.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	yoy % Chg	Remarks
Gross Revenue	36.2	+1.5	Organic growth from its existing properties through new leases, rental escalation and new Academy Sports store.
Net Property Income (NPI)	24.8	+1.7	
Distributable Income	13.8	-18.2	Interest expense increased 64% yoy.
DPU (US cents)	2.14	-27.9	Switched to paying management fees fully in cash.

Source: UHU, UOB Kay Hian

RESULTS

- **United Hampshire US REIT (UHU)** reported DPU of 2.14 US cents for 2H23 (-27.9% yoy), which is slightly above our forecast. The decline was caused by: a) a change in policy as the manager elected to receive management fees of S\$1.5m fully in cash, and b) UHU retaining US\$1.3m with payout ratio at 90.6% for 2H23.
- **Growing organically.** Gross revenue and NPI grew 1.5% and 1.7% yoy respectively for 2H23 due to organic growth from its existing properties through new leases and rental escalation. The new Academy Sports + Outdoors store at St Lucie West commenced operations in Nov 23, ahead of the peak year-end festive shopping season.
- **Resiliency from long WALE.** UHU signed six leases totalling 100,392sf in 4Q23 (two new leases and four renewals). It achieved positive low single-digit rental reversion. It has maintained high tenant retention ratio of 92% since its IPO. Committed occupancy inched higher by 0.5ppt yoy and 0.2ppt qoq to 97.4% in 4Q23. UHU's grocery and necessity properties have a long WALE of 7.1 years. There is minimal roll-over risk with leases expiring in 2024 accounting for only 2.2% of base rental income.
- **Resiliency from essential services.** As of Dec 23, 61.6% 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 higher 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 91.3% and 92.2% respectively as of Dec 23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	67	72	75	76	77
EBITDA	41	45	46	48	49
Operating profit	41	45	46	48	49
Net profit (rep./act.)	25	33	26	28	28
Net profit (adj.)	25	22	26	28	28
EPU (US\$ cent)	4.5	3.9	4.6	4.9	5.0
DPU (US\$ cent)	5.9	4.8	4.5	4.8	4.9
PE (x)	10.0	11.5	9.6	9.0	8.9
P/B (x)	0.6	0.6	0.6	0.6	0.6
DPU Yld (%)	13.2	10.8	10.2	10.9	11.0
Net margin (%)	37.7	45.4	35.1	37.0	36.8
Net debt/(cash) to equity (%)	71.1	71.8	73.2	74.1	75.0
Interest cover (x)	3.4	2.8	2.8	2.9	2.9
ROE (%)	6.0	7.7	6.1	6.5	6.5
Consensus DPU (US\$ cent)	n.a.	n.a.	5.0	4.8	4.9
UOBKH/Consensus (x)	-	-	0.90	1.01	1.00

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

BUY

(Maintained)

Share Price	US\$0.445
Target Price	US\$0.68
Upside	+52.8%
(Previous TP)	US\$0.64

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):	258.8
Market cap (US\$m):	258.8
3-mth avg daily t'over (US\$m):	0.1

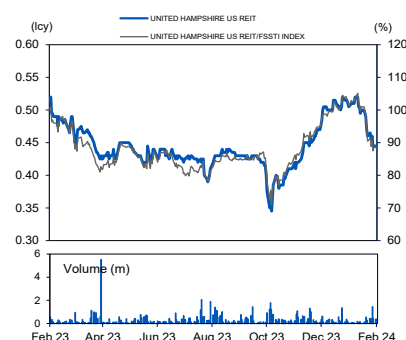
Price Performance (%)

52-week high/low	US\$0.52/US\$0.345			
1mth	3mth	6mth	1yr	YTD
(13.6)	8.5	14.1	(11.9)	(11.9)

Major Shareholders

U.S. RE Fund II Offshore Feeder 1	7.7
The Hampshire Generational Fund LLC	8.0
Golden Sun (China)	5.9
FY24 NAV/Share (US\$)	0.76
FY24 Net Debt/Share (US\$)	0.56

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Capital values creeping higher.** On a same store basis, portfolio valuation increased 4.7% due to favourable dynamics for retail real estate and higher occupancies for its strip centres in suburban locations. The strong operating performance of UHU's properties offset the negative impact from higher capitalisation and discount rates. NAV per unit was stable at US\$0.72.
- Prudent capital management.** Aggregate leverage is stable at 41.7% as of Dec 23. Weighted average interest rate on a trailing 12-month basis increased 0.28ppt qoq to 4.32% in 4Q23 (excluding upfront costs). Interest coverage ratio remains healthy at 2.9x. About 79% of its borrowings are hedged to fixed rates.
- Successfully completed refinancing for 2023 and 2024.** UHU's key bankers are Canadian Imperial Bank of Commerce (Bloomberg ticker: CM CN) and M&T Bank (Bloomberg ticker: MTB US). It has successfully completed the refinancing of its term loans and mortgage loan due in 2023 and 2024. There is no refinancing requirement until Nov 26. The weighted average debt maturity was 3.0 years.

STOCK IMPACT

- Strip centres benefit from population migration...** Strip centres benefit from hybrid work arrangements as consumers are spending more time at their home in suburban locations. Thus, foot traffic at UHU's strip centres has improved, especially during weekdays.
- ...and adapt through seamless omni-channel strategy.** Shoppers are returning to physical stores, which are differentiated by pleasant in-store shopping experiences, including the ability to see and try out the products. Shoppers could purchase their desired products instantaneously without having to wait for delivery. Strip centres have redesigned their layout to complement the usage of e-commerce apps, including offering curb-side pick-up. Nowadays, strip centres also serve as last-mile fulfilment hubs to deliver online orders and process returns.
- Strip centres recovering after years of minimal construction.** Supply of new retail space has been limited over the past decade since the 2008-09 Global Financial Crisis and continues to be crimped by high construction cost. According to Green Street, strip centres have the least new supply coming on stream over the next five years due to elevated construction costs and supply barrier, especially in dense affluent residential suburbs. 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.
- Asset enhancement initiative.** 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. The new store provides high single-digit ROI.

EARNINGS REVISION/RISK

- We kept our 2024 DPU forecast relatively unchanged at 4.5 US cents.

VALUATION/RECOMMENDATION

- Attractive and irresistible yield spread.** UHU trades at 2024 distribution yield of 10.2%, which represents an attractive yield spread of 5.9% above the 10-year US government bond yield of 4.3%. It trades at P/NAV of 0.62x.
- Maintain BUY.** Our target price of US\$0.68 is based on the dividend discount model (cost of equity: 8.5%, terminal growth: 1.5%).

SHARE PRICE CATALYST

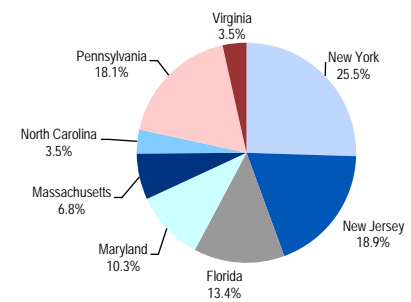
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery and necessity retail properties.

KEY OPERATING METRICS - UHU

		4Q22	1Q23	2Q23	3Q23	4Q23	yoy	qoq*
DPU	US cents	2.97	n.a.	2.65	n.a.	2.14	-27.9%	-19.2%
Occupancy	%	96.9%	97.0%	97.9%	97.2%	97.4%	0.5ppt	0.2ppt
Aggregate Leverage	%	41.8%	42.6%	42.0%	41.7%	41.7%	-0.1ppt	0ppt
Average Cost of Debt	%	2.77%	3.02%	3.57%	4.04%	4.32%	1.6ppt	0.3ppt
Weighted Average Lease Expiry (WALE)	year	7.5	7.4	7.2	7.2	7.1	-0.4yrs	-0.1yrs
Weighted Debt Maturity	year	4.0	3.7	3.5	3.2	3.0	-1yrs	-0.2yrs
% Borrowing in Fixed Rates	%	81.4	80.2	80.9	80.9	78.8	-3.2%	-2.6%

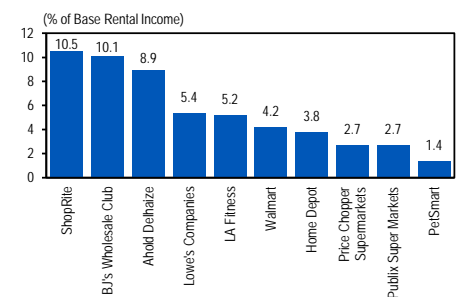
Source: UHU, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY STATE (DEC 23)



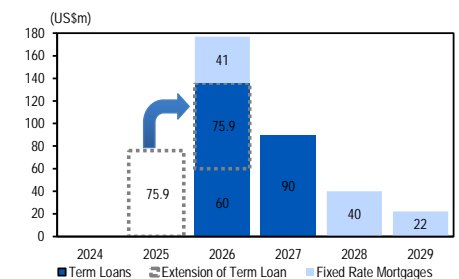
Source: UHU

TOP-10 TENANTS - GROCERY & NECESSITY RETAIL



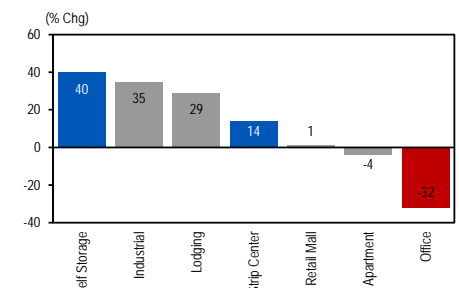
Source: UHU

DEBT MATURITY PROFILE (EXTENSION OPTION EXERCISED)



Source: UHU

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



Source: UHU

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	72.2	74.9	75.9	76.9
EBITDA	45.1	46.1	48.4	49.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	45.1	46.1	48.4	49.1
Total other non-operating income	0.0	0.0	0.0	0.0
Net interest income/(expense)	(16.1)	(16.7)	(17.0)	(17.2)
Pre-tax profit	39.8	29.5	31.5	31.9
Tax	(6.8)	(3.0)	(3.2)	(3.4)
Minorities	(0.2)	(0.2)	(0.2)	(0.2)
Net profit	32.8	26.3	28.1	28.3
Net profit (adj.)	22.0	26.3	28.1	28.3

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	785.0	790.0	795.0	800.0
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	13.9	15.0	15.6	16.3
Other current assets	9.9	9.0	9.1	9.2
Total assets	808.8	814.0	819.8	825.5
ST debt	21.1	21.1	21.1	21.1
Other current liabilities	13.3	11.3	11.4	11.6
LT debt	302.8	310.0	315.0	320.0
Other LT liabilities	37.4	37.4	37.4	37.4
Shareholders' equity	431.6	432.2	432.8	433.4
Minority interest	2.5	2.0	2.0	2.0
Total liabilities & equity	808.8	814.0	819.8	825.5

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	45.6	40.0	43.9	44.4
Pre-tax profit	29.0	29.5	31.5	31.9
Deprec. & amort.	(0.4)	(1.8)	(1.8)	(1.8)
Working capital changes	11.2	(0.8)	0.1	0.1
Non-cash items	1.7	4.9	3.3	3.3
Other operating cashflows	4.2	8.2	10.8	10.8
Investing	(9.3)	(5.0)	(5.0)	(5.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(18.7)	(5.0)	(5.0)	(5.0)
Proceeds from sale of assets	9.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(34.7)	(33.9)	(38.2)	(38.7)
Distribution to unitholders	(28.0)	(25.7)	(27.5)	(27.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	7.7	7.2	5.0	5.0
Others/interest paid	(14.5)	(15.5)	(15.8)	(16.0)
Net cash inflow (outflow)	1.7	1.1	0.7	0.7
Beginning cash & cash equivalent	12.2	13.9	15.0	15.6
Ending cash & cash equivalent	13.9	15.0	15.6	16.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	62.4	61.6	63.8	63.9
Pre-tax margin	55.1	39.3	41.4	41.5
Net margin	45.4	35.1	37.0	36.8
ROA	4.1	3.2	3.4	3.4
ROE	7.7	6.1	6.5	6.5
Growth				
Turnover	7.1	3.7	1.4	1.4
EBITDA	10.6	2.3	5.0	1.4
Pre-tax profit	37.2	(26.0)	6.8	1.4
Net profit	29.0	(20.0)	6.9	0.9
Net profit (adj.)	(12.8)	19.5	6.9	0.9
EPU	(13.4)	19.5	6.9	0.9
Leverage				
Debt to total capital	42.7	43.3	43.6	43.9
Debt to equity	75.1	76.6	77.7	78.7
Net debt/(cash) to equity	71.8	73.2	74.1	75.0
Interest cover (x)	2.8	2.8	2.9	2.9

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