Supermarket Income REIT

Company outlook

Strong accretive growth continuing

Real estate

Strong portfolio growth continues, providing increased diversification and economies of scale. The proceeds of October's highly successful £200m equity offering were swiftly deployed by January and including subsequent investment are now effectively fully deployed, including leverage. With leading supermarket operators providing a strong tenant covenant and 100% of store rents received in advance as expected, there has been no pandemic interruption to inflation-linked dividend growth.

Year end	Rental income (£m)	EPRA earnings (£m)	EPRA EPS* (p)	EPRA NAV/share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/19	17.2	9.9	5.0	97	5.63	1.13	5.2
06/20	26.4	16.8	5.0	101	5.80	1.08	5.3
06/21e	46.7	39.6	6.4	98	5.86	1.11	5.4
06/22e	54.9	48.3	7.2	102	5.98	1.07	5.5

Note: *EPRA EPS is normalised, excluding gains on revaluation.

Capital resources swiftly deployed

Including, most recently, Sainsbury's in Bangor, eight stores have been acquired since October for an aggregate c £245m (before costs). Including a £57.5m (before costs) follow-on investment, through the JV with British Airways Pension Fund, in the Sainsbury's Reversion Portfolio, the proceeds of the October capital raise have now been substantially deployed on a geared basis. The JV has increased to 51% (from 25.5%) its beneficial interest in a portfolio of 26 well-performing, predominantly omnichannel stores, leased to and operated by Sainsbury's. The investment should provide an attractive return on investment, in excess of the group target, and offers potential access to a valuable pipeline of assets which we believe share similar characteristics to its current portfolio. The directly owned investment portfolio now comprises 27 stores, for which we estimate a valuation of c £975m. With annualised passing rent of c £52.3m, we expect strong rental income growth to continue with a geared impact on earnings.

Visible income and growth potential

SUPR portfolio of UK supermarket assets, with long leases and predominantly upward-only, inflation-linked rents, is let to quality tenant covenants. It mainly targets omnichannel stores (combining in-store and online fulfilment) that can benefit from both the expected growth of grocery sales and the increasing popularity of online, in strong locations, with asset management potential. Inflation-linked rent uplifts, strong tenant covenants and long lease lengths provide secure income growth prospects and good potential for capital growth. Supermalket property has a long record of positive total returns underpinned by stable income returns, and the strength of tenant covenant is reflected in rental income due being collected in advance with no defaults, deferrals or rent reductions.

Valuation: Secure, growing income

Based on SUPR's FY21 aggregate DPS target of 5.86p, the prospective dividend yield is an attractive 5.4% with visible potential for growth. Compared with a group of other long income-focused REITs, its yield is above average with a similar P/NAV.

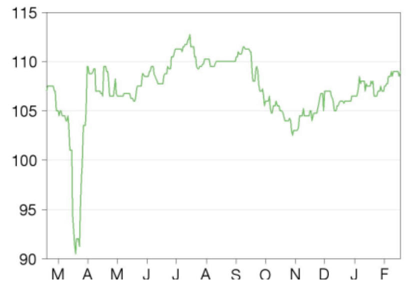
NOT INTENDED FOR PERSONS IN THE EEA

18 February 2021

Price	**109p**
Market cap	**£726m**

Net balance sheet debt (£m) at 30 June 2020	106.4
Adjusted net LTV at 30 June 2020	17.9%
Shares in issue	666.1m
Free float	99%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.4	3.8	1.4
Rel (local)	1.1	(2.2)	10.3
52-week high/low		113p	91p

Business description

Supermarket Income REIT, listed on the special funds segment of the London Stock Exchange, invests in supermarket property, primarily let to leading UK supermarket operators, on long, inflation-linked leases. The investment objective is to provide an attractive level of income, with the potential for capital growth, with a 7–10% pa total shareholder return target over the medium term.

Next events

H121 half-year results	2 March 2021

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Edison profile page

Supermarket Income REIT is a research client of Edison Investment Research Limited

Visible income and growth potential

Supermarket Income REIT (SUPR), which is listed on the special funds segment of the London Stock Exchange, invests in a diversified portfolio of supermarket property, let to leading UK supermarket operators on long, RPI-linked leases. The investment objective is to provide an attractive level of income, with the potential for capital growth and a 7–10% pa total shareholder return target over the medium term. Since IPO in July 2017, SUPR has paid increasing inflation-driven dividends and has generated consistently positive returns. For the year to 30 June 2020, the EPRA NAV total return (change in EPRA NAV adjusted for dividends paid) was 10.7%, taking the total since IPO to 20.4%.

Supermarket property has a long record of positive total returns underpinned by stable income returns in part due to the long length of lease commitments, and a strong occupier covenant as well as the non-cyclical nature of grocery retailing. Most (over 90%) of SUPR's directly owned supermarket stores benefit from upward-only, inflation-linked rental uplifts, and the strength of tenant covenant is reflected in 100% of rental income due being collected in advance, with no defaults, deferrals or rent reductions. SUPR predominantly targets omnichannel stores that operate both as physical supermarkets and as online fulfilment centres, in strong locations, with asset management potential. The company firmly believes that omnichannel stores represent the future model of grocery in the UK, being able to benefit from both the expected growth of grocery sales and the increasing popularity of online, and as a result perform a critical role in the business strategies of the tenant operators. During the pandemic all the main grocery retailers have seen strong growth in sales, especially through online channels and driven by omnichannel stores (rather than dedicated online fulfilment centres), which have seen their share of online grocery orders increase significantly.

Advised by Atrato Capital

The company has an independent board of non-executive directors and has appointed Atrato Capital as investment adviser. The Atrato management team brings a very high level of experience and knowledge of the UK real estate sector, having advised on, structured and executed more than £5.0bn of supermarket transactions (including more than £1bn for SUPR) over the past decade. In March 2019, Justin King joined Atrato as a senior adviser. He is widely recognised as one of the UK's most successful grocery sector leaders, with a wealth of experience in the grocery sector and a deep understanding of grocery property strategy. He served as chief executive of J Sainsbury for 10 years until 2014, and before that was part of the leadership team at Marks & Spencer and previously held senior roles at Asda. Biographies for key members of the Atrato team can be found at the back of this report. Investment advisor fees are calculated according to a tiered structure, allowing shareholders to benefit more fully from portfolio growth and compare favourably in a sector context. 25% of the investment advisory fee is paid in shares and there is no performance fee.

Exhibit 1: Investment adviser fees on NAV (less uninvested cash)

Up to £500m	0.95%
£500m–£1.0bn	0.75%
£1.0bn–£1.5bn	0.65%
Above £1.5bn	0.45%

Source: Supermarket Income REIT

Transformational growth continuing

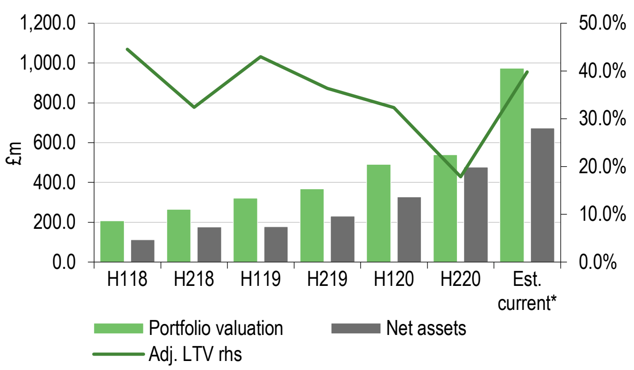
SUPR has grown consistently and strongly since IPO, but the past 18 months have been truly transformational. Since the beginning of FY20, the directly owned investment portfolio, excluding the JV, has increased from £368m to c £975m (Edison estimate), while c £110m has been indirectly invested through the JV in a large portfolio of high-quality supermarkets leased to and operated by Sainsbury's (the Sainsbury's Reversion Portfolio). Portfolio growth is bringing increased diversification by tenant, store and geography, and is generating increasing economies of scale, supported by decreasing marginal investment advisory fees.

The FY20 increase in the value of the direct investment portfolio, from £368.2m to £539.4m, included the acquisition of three omnichannel supermarkets for an aggregate £148.8m (before costs), as well as like-for-like valuation growth of 4.3%, primarily driven by like-for-like rental growth of 2.5%. SUPR has since completed the acquisition of a further 17 supermarkets for a total consideration of c £435m before costs, continuing to diversify by asset, geography and tenant (adding Waitrose and Aldi for the first time). The proceeds of the highly successful £200m (gross) equity placing in October 2020 were quickly deployed by January 2021 in the direct acquisition of seven stores for a combined investment of c £245m (before costs).

SUPR initially invested £51m (before costs) in the Sainsbury's Reversion Portfolio in May 2020 through a 50% stake in a newly established joint venture with British Airways Pension Fund. The 25.5% beneficial interest in the portfolio has now been increased to 51%, representing an additional investment by SUPR of £57.5m (before costs). The indirect investment in this portfolio of 26 well-performing, predominantly omnichannel stores should provide an attractive return on investment, at a rate in excess of the group target, and offers potential access to a valuable pipeline of assets which we believe shares similar characteristics to its current portfolio.

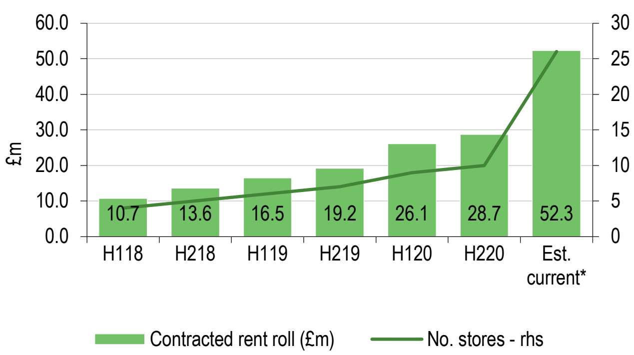
The directly owned investment portfolio now comprises 27 stores (plus some ancillary assets), for which we estimate a valuation (based on the end-FY20 valuations and the purchase values of assets acquired subsequently) of c £975m and annualised passing rent of c £52.3m. The Sainsbury's Reversion Portfolio provides exposure to a further 26 stores. We estimate that the adjusted net loan to value ratio (LTV) is now close to 40% compared with SUPR's medium-term target of 35-40%.

Exhibit 2: Portfolio value and growing equity base with moderate gearing (LTV)



Source: Supermarket Income REIT data. Note: *Edison current estimate adjusting 30 June 2020 position for FY21 net equity proceeds and year to date acquisitions.

Exhibit 3: Increasingly diversified asset base and growing rent roll



Source: Supermarket Income REIT data. Note: *Edison current estimate including FY21 year to date acquisitions. Total rent roll includes ancillary assets.

Direct portfolio growth and increased investment in strategic joint venture

During FY21 year to date, SUPR has invested c £435m in its directly owned portfolio, acquiring a further 17 stores, and has committed an additional £57.5m to its joint venture with British Airways Pension Fund, maintaining a 50% interest in the vehicle, which has increased its beneficial interest in the Sainsbury's Reversion Portfolio, a securitised portfolio of high-quality, predominantly omnichannel and well-performing Sainsbury's supermarkets from 25.5% to 51.0%.

During the six months to 31 December 2020 (H121), 13 stores were acquired for a total consideration of £315m (before costs), at a blended net initial yield (NIY) of c 5.0%. This is a similar yield to the end-FY20 portfolio yield, although we believe it would have been slightly increased by the inclusion of some additional ancillary assets in two of the acquisitions at higher yields than the store assets. Nine stores were acquired for c £189m (before costs) by the end of September 2020, ahead of the highly successful £200m (gross) equity placing in October 2020, and an additional four stores have been added for a combined investment of £126m.

The nine store acquisitions made in H121 prior to the equity raise comprise:

- A portfolio of six Waitrose supermarkets via a sale and leaseback transaction for £74.1m (before costs), reflecting an NIY of 4.4%, in July 2020. SUPR says the stores form a key part of the Waitrose online grocery fulfilment network, benefit from a strong trading record, are complementary to the existing portfolio, and provide further tenant and geographic diversification. The stores are all let to Waitrose on 20-year leases with tenant-only break option in year 15 and are subject to five-yearly, upward-only, inflation-linked (CPIH) rent reviews.
- Morrisons in Telford, Shropshire for £14.3m (before costs), reflecting an NIY of 5.0%, in August 2020. The unexpired lease term is 13 years with five-yearly, upward-only, RPI-linked rent reviews.
- Tesco Extra in Newmarket, Suffolk for £61.0m, reflecting an NIY of 4.6%, in July 2020. The unexpired lease term is 15 years with annual, upward-only, RPI-linked rent reviews.
- Tesco Superstore in Bracknell, Berkshire for £39.5m (before costs) reflecting a, NIY of 5.7%. The unexpired lease term is 10 years with annual, upward-only, RPI-linked rent reviews.

Having completed the equity raise, SUPR completed the following 4 store assets before end-H121:

- Sainsbury's in Heaton, Newcastle upon Tyne (and adjoining commercial premises) for £53.1m (before costs), reflecting a combined NIY of 4.1%, increasing to at least 4.6% following the next scheduled five-yearly, RPI-linked rent review in November 2021. Three commercial units on the site, let to Peugeot Motor Company on a remaining term of six years, but currently unoccupied, yield more than 9% and offer asset management potential.
- Tesco Extra, with an Aldi supermarket and adjoining retail units, in Beaumont Leys, Leicester for £63.4m (before costs) reflecting an NIY of 6.4%. The unexpired lease term for the Tesco Extra is seven years with five-yearly, upward-only, open market rent reviews, the next being in February 2023. The Aldi supermarket opens this year and has been acquired with an unexpired lease term of 25 years (with break options at years 15 and 20) with five-yearly, upward-only, RPI-linked rent reviews. Adjoining the Tesco Extra and Aldi supermarket is a parade of retail units, predominantly occupied by Costa, Greggs, WH Smith and Pets at Home.
- Waitrose in Market Harborough, Leicestershire for £9.1m (before costs), representing an NIY of 4.3%. The unexpired lease term is 19 years (with a break option at year 14) with five-yearly rent reviews subject to 2% fixed, annually compounded uplifts.

As at 31 December 2020 (H121), as reported in the SUPR's Q221 Factsheet, the pro forma portfolio value (taking the end-FY20 valuation for existing assets and including the acquired assets at their purchase prices) was £854m and, including the JV equity interest at its c £56m end-FY20 value, the total portfolio valuation was £910m. The store portfolio valuation yield was 5.0% and the weighted average unexpired lease term (WAULT) was 16 years.

So far in H221, SUPR has acquired a further four stores, comprising:

- Sainsbury's in Melksham, Wiltshire and Waitrose in Winchester, Hampshire, with adjoining units, for a combined £64.8m (before costs) representing a NIY of 4.4%. The Sainsbury's store was acquired with an unexpired lease term of 17 years, subject to annual, upward-only, RPI-linked rent reviews. The Waitrose store was acquired with an unexpired lease term of 24 years, subject to five-yearly, upward-only, RPI-linked reviews, and included in the purchase were four residential apartments, a GP medical centre and four ancillary units.
- Morrisons in Wisbech, Cambridgeshire with two adjoining ancillary units, for a combined £30m (before costs), representing a NIY of 5.0%. The store was acquired with a new 26-year lease (with a tenant-only break option at year 20), subject to five-yearly, upward-only, RPI-linked rent reviews. The two adjoining units are let to B&Q and B&M, with a weighted unexpired lease term of eight years, subject to open market reviews.
- Sainsbury's in Bangor, County Down, Northern Ireland, with an adjoining Homebase store, for a combined £24.8m (before costs), representing a NIY of 6.6%. The store was acquired with an unexpired lease term of 15 years, with five-yearly rent reviews subject to 2% fixed, annually compounded uplifts. The Homebase has an unexpired lease term of 10 years with five-yearly open market rent reviews.

Exhibit 4 summarises the recent strong growth in the fully owned portfolio. We estimate that the current pro forma portfolio value is now just under £975m (taking the end-FY20 valuation for existing assets and including all the assets acquired thus far in FY21 at their purchase prices) and, including the increased JV equity interest (at its c £56m end-FY20 value plus the further £57.5m investment), the total pro forma valuation is now approaching £1.1bn. We estimate a similar WAULT and NIY to end-H121.

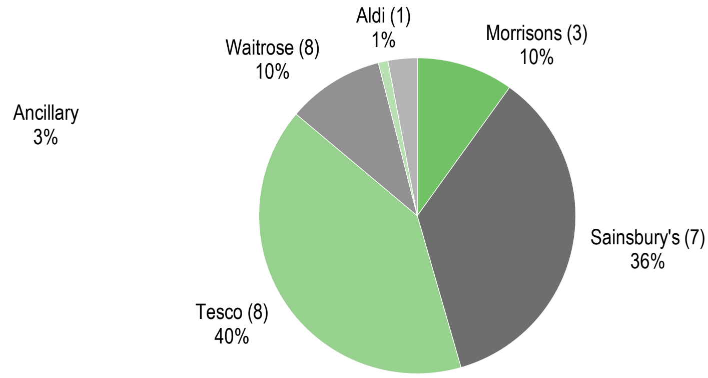
Exhibit 4: Directly owned portfolio summary

Location	Tenant	Valuation (£m)	Passing rent (£m)	Valuation yield	WAULT (yrs.)	Rent review	Floor-cap	Gross store size ('000sqft)	Net store size ('000sqft)
Ashford	Sainsbury's	88.5	4.1	4.3%	18	Annual RPI	1-3%	125	72
Bristol	Tesco	28.0	1.6	5.4%	11	Annual RPI	0-4%	55	31
Cumbernauld	Tesco	59.9	3.1	4.9%	20	Annual RPI	0-5%	117	70
Scunthorpe	Tesco	59.7	3.0	4.9%	20	Annual RPI	0-5%	98	65
Thetford	Tesco	41.9	2.7	6.1%	9	Annual RPI	0-4%	78	48
Sheffield	Morrisons	55.8	2.9	4.8%	19	5-yearly RPI	0-4%	113	58
Mansfield	Tesco	50.1	2.6	4.8%	19	Annual RPI	0-4%	90	64
Preston	Sainsbury's	59.8	3.0	4.8%	22	Annual RPI	1-4%	106	78
Cheltenham	Sainsbury's	60.4	3.4	5.3%	12	5-yearly RPI	0-4%	98	62
Hessle	Sainsbury's	35.3	2.3	5.5%	14	Annual RPI	1.3-3.5%	71	51
FY20 total		**539.4**	**28.8**						
Ely	Waitrose	12.6	0.6	4.4%	20	5-yearly CPIH	1-3%	33	15
Eastbourne	Waitrose	13.3	0.6	4.4%	20	5-yearly CPIH	1-3%	35	22
Edenbridge	Waitrose	7.5	0.4	4.4%	20	5-yearly CPIH	1-3%	19	13
Sandbach	Waitrose	15.8	0.7	4.4%	20	5-yearly CPIH	1-3%	40	24
Oundle	Waitrose	8.7	0.4	4.4%	20	5-yearly CPIH	1-3%	22	15
Sudbury	Waitrose	16.3	0.8	4.4%	20	5-yearly CPIH	0-4%	44	30
Newmarket	Tesco	61.0	3.0	4.6%	16	Annual RPI	0-5%	107	68
Terlford	Morrisons	14.3	0.8	5.0%	17	5-yearly RPI	1-3%	42	27
Bracknel	Tesco	39.5	2.4	5.7%	10	Annual RPI	0-4%	73	47
Q121 total/average		**728.4**	**38.4**	**5.0%**	**16**		**0.6-3.7%**	**72**	**45**
Newcastle upon Tyne	Sainsbury's	53.1	2.0	4.1%	21		1.5-4.0%	98	68
Newcastle upon Tyne	Ancillary		0.4		6			24	N/A
Beaumont Leys	Tesco	63.4	3.8	6.4%	7	5-yearly OM		149	97
Beaumont Leys	Aldi		0.3		25	5-yearly RPI	1.0-2.5%	19	15
Beaumont Leys	Ancillary		0.7					42	N/A
Market Harborough	Waitrose	9.1	0.4	4.3%	19	5-yearly	2-2%	23	15
H121 total/average		**854.0**	**46.0**	**5.0%**	**16**				
Winchester	Waitrose	64.8	0.9	4.4%	24	5-yearly RPI	1-3.3%	31	26
Winchester	Ancillary		0.6					21	
Melksham	Sainsbury's		1.6		17	Annual RPI	1-4%	61	45
Wisbech	Morrisons	30.0	1.0	5.0%	26	5-yearly RPI	1.5-3.0%	49	37
Wisbech	Ancillary		0.5		8	OM		49	
Bangor	Sainsbury's	24.8	1.0	6.6%		5-yearly	2-2%	61	44
Bangor	Ancillary		0.6			5-yearly OM		44	
Current total/average		**973.6**	**52.3**	**5.0%**	**16**			**69****	**44****

Source: Supermarket Income REIT data, Edison Investment Research. Note: *Valuation as at 30 June 2020 including subsequent acquisitions at purchase prices. **Stores only.

The annualised passing rent on the direct portfolio is now c £52.3m, up from the £46.0m reported at end-H121, and includes c £2.7m in respect of the ancillary assets acquired alongside store acquisitions in Newcastle upon Tyne, Beaumont Leys, Winchester, Wisbech and Bangor. The ancillary assets represent a small share of the portfolio (c 3% by value) and are generally a by-product of SUPR's desire to maintain fully strategic control over sites, while also providing asset management options. The store rent roll is predominantly (more than 90%) subject to upward-only, inflation-linked rent reviews, with the balance represented by fixed uplifts on the Waitrose at Market Harborough and Sainsburt's at Bangor while the Tesco store at Beaumont Leys is subject to five-yearly open market rent reviews.

Exhibit 5: Split of portfolio value by tenant/number of stores



Source: Supermarket Income REIT, Factsheet February 2021

Joint venture interest in Sainsbury's Reversion Portfolio

The joint venture with British Airways Pension Fund, in which SUPR has a 50% stake, first acquired a 25.5% beneficial interest in the Sainsbury's Reversion Portfolio, one of the UK's largest portfolios of supermarket properties, from British Land in May 2020. The JV has now increased its beneficial interest in the portfolio to 51% by acquiring a further 25.5% from Aviva. SUPR expects to earn an attractive return on its investment, ahead of the group average, and may benefit from the opportunity to acquire attractive assets from the portfolio, valued at £900.7m as at 30 June 2020, as the leases and securitised funding reach maturity in 2023.

The British Land interest in the portfolio was acquired by the JV for c £102m before costs (£105.2m including acquisition costs), a discount to the £111.2m book value of the interest at the date of acquisition. SUPR's contribution to the JV was £52.6m, generating negative goodwill (a gain in the IFRS income statement) of c £3.0m in FY20. The Aviva interest has been acquired for £115.0m before costs, of which SUPR's contribution to the JV is £57.5m. Based on the likely development of the portfolio book value since June 2020, we expect the Aviva interest has also been acquired at a discount to book value, at least sufficient to cover the costs of the transaction which we expect to be lower than those related to the first investment, including initial due diligence work. Based on the initial investment and on a full-year basis, SUPR's share of the recurring earnings of the JV (excluding the negative goodwill impact) would have been c £5.5m (the reported contribution representing just one month of ownership was c £0.5m), a c 10% return on the invested value (before costs). We expect a similar annualised rate of return going forward on the increased beneficial interest (ie a SUPR share of c £11.0m pa).

Of the 26 stores in the reversion portfolio, 23 are omnichannel, offering physical shopping, click and collect and online home delivery, and most also incorporate an Argos. The average store net sales area is c 61,000 sq ft with an average gross internal area of approximately 79,000 sq ft. Although geographically diverse, around 60% of the portfolio is in London and the South East. The quality and trading performance of the portfolio is indicated by the fact that it represents c 4% of the total Sainsbury's estate (by floorspace) but generates c 7% of annual sales.

The reversion portfolio was created through two sale and leaseback transactions in 2000 by Sainsbury's, which has a 49% beneficial interest in the portfolio, occupies the stores and pays all the rents under the current occupational leases. Annualised rental income is currently c £53m and is subject to fixed annual uplifts of 1% per year. Reflecting the short remaining lease length, the portfolio net initial yield is c 5.5%, well above the SUPR portfolio yield of 5.0%, despite the quality of the assets. The portfolio is fully geared through a securitisation, with portfolio income used to service and pay down debt. Both the leases and the securitisation bonds mature in March and July 2023, and at lease expiry Sainsbury's has the option to extend the leases for a further term of 20 years at the higher of passing rent or open market rent, subject to upward-only, five-year market rent reviews or to vacate the properties. Ahead of this, we would expect the leases to be renewed or the assets sold, allowing SUPR to benefit from a potential lease renewal or gain access to a valuable pipeline of assets which we believe share similar characteristics to its current portfolio. Although the JV contribution to expiry is 'earned' in the form of an increasing carrying value and is not immediately received in cash, it represents an attractive return. Given the increasing scale of the portfolio, we do not expect an impact on the inflation-linked progressive dividend policy.

Focused investment policy

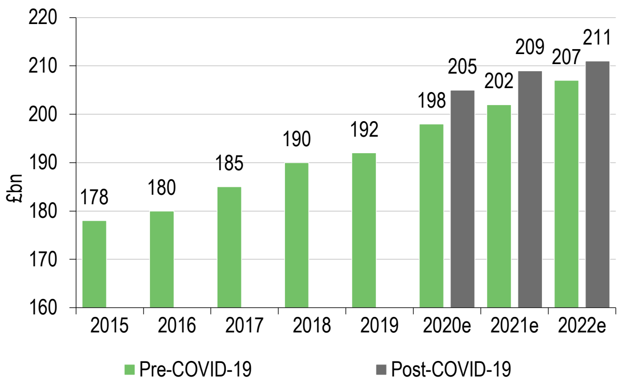
Key to the visibility of income growth is the selection of properties with inflation-linked rental uplifts and let on long unexpired lease terms to institutional-grade tenants, although this is reinforced by a highly selective investment strategy that additionally focuses on:

- **Supermarkets fulfilling online delivery.** With dedicated online-only fulfilment centres only really making commercial sense around high population density London, the major operators have built a network of omnichannel stores combining supermarkets (the dominant channel) with online (the fastest growing channel). SUPR expects continued online growth and predominantly targets omnichannel stores.
- **Strong trading stores**. SUPR targets strongly performing stores with a proven trading record, identified using the knowledge and experience of the investment adviser.
- **Large flexible sites**. Good transportation links, a low site cover, with significant non-sales space provides opportunities to benefit from future **asset management opportunities** and may offer good potential for alternative use over the longer term.

Grocery sales, especially online, have grown strongly during COVID-19

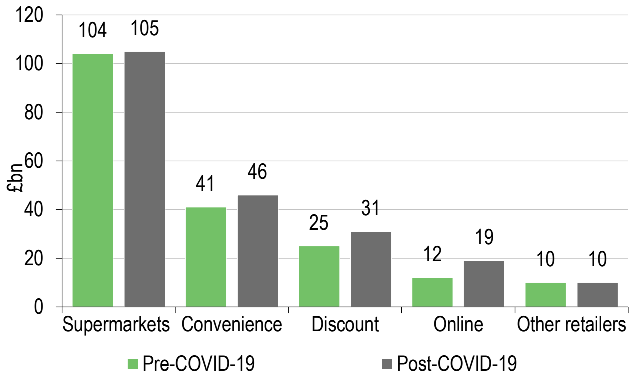
All of the main UK grocery retailers have seen strong growth in sales during the pandemic, initially due to consumer stockpiling and subsequently as a result of more eating in and less eating out. Some of this will be temporary and will unwind as and when the reopening of bars and restaurants progresses, but it seems likely that a full return to the 'old normal' may never happen or may be some way off. IGD Retail Analysis forecasts for UK grocery sales have been increased for each of the next three years (Exhibit 6). The majority of grocery orders are still fulfilled within stores but online is the fastest growing channel and this growth has been dramatically boosted during the pandemic, supported by a massive increase in home grocery delivery capacity. Kantar data show that online grocery sales reached 12.6% in December 2020, a significant increase on 7.4% in the previous year. Atrato estimates that this significant growth has been focused on omnichannel stores (rather than dedicated online-only sales facilities), with c 80% of all online orders recently being fulfilled instore (omnichannel) compared with 74% pre-COVID. This was made possible by the supermarket operators flexing their estates to meet demand trends; for example, Tesco was able to more than double its online delivery capacity during the pandemic, to over 1.5 million slots per week. Although this online acceleration does not directly affect SUPR or the company's contracted rental income, it underlines the key role of omnichannel stores in the distribution strategies of the operators and the long-term attractiveness of such stores to operators and investors. Atrato firmly believes that omnichannel stores are the future of UK online grocery retailing and that because of the capex required, dedicated online-only facilities are only really viable in areas of high population density, such as London, which are under-serviced by supermarket space relative to the rest of the country. Outside London, existing, relatively larger, full-range stores, in close proximity to population centres, make the omnichannel store model well suited for fulfilling the 'last mile' of online grocery distribution.

Exhibit 6: UK grocery sales & forecasts – market total



Source: Supermarket Income REIT, IGD

Exhibit 7: UK grocery sales forecasts by format



Source: Supermarket Income REIT, IGD

The 'big four' operators retain significant market share

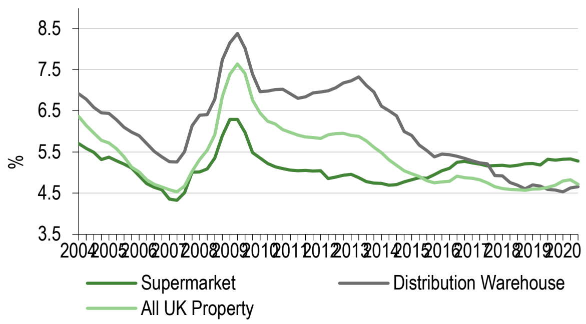
The sector has been fiercely competitive for many years and remains so. Low-price operators such as Aldi and Lidl have experienced strong sales growth, driven by new store openings and price competition, primarily taking market share from the smaller independent operators. The 'big four' (Tesco, Asda, Sainsbury's and Morrisons) still have a combined share of c 66%, together operate more than 9,000 stores and represent strong covenant backing for long-term leases. The investment adviser believes that their ability to protect market share is in part due to the underlying nature of their store portfolios. As incumbents, they tend to have the largest sites in some of the best locations. It is too early to determine the longer-term financial impact of the pandemic on the operators, although the recent boost to sales from the pandemic and the increase in future industry grocery sales forecasts is a clear positive, offset in the near term by increased staff and safety costs and investment spend on increasing online delivery capacity. Ahead of the pandemic, the big four, led by Tesco, had been progressively improving cash flow generation through cost reduction programmes and enhancing balance sheet strength through sustained debt reductions.

Potential for yields to tighten, lifting valuations

Until around 2013, supermarket property had historically been priced at yields below the UK all-property sector. However, since 2013, in contrast to most other long income property yields, the supermarket sector has experienced a negative yield shift. This period of yield widening for supermarket property corresponded to the period of intense competition among the supermarket operators referred to above, and against a background of continuing growth in online retail and its transformational impact on traditional retail distribution. Investor interest in the supermarket property sector has picked up sharply over the past year or so, but the investment adviser believes the investment prospects for supermarkets remain favourable and that further increases in valuation are possible, citing:

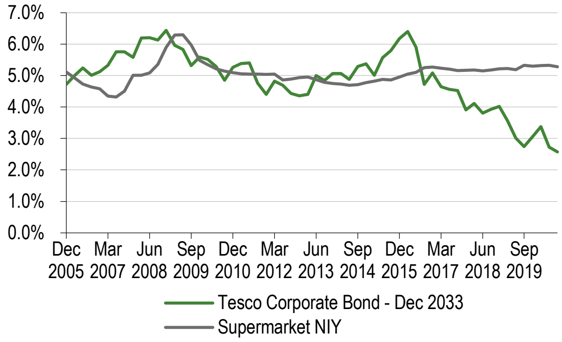
- The strongly positive spread between supermarket property yields and supermarket operator corporate bond yields, as well as risk-free rates.
- The improved financial strength of the operators.
- A wide gap between supermarket yields and distribution warehouse yields. Although performing very different roles in the supply chain, the investment advisor believes that there are certain similarities, in the area of online sales, with supermarkets that are fulfilling online deliveries from omnichannel stores.

Exhibit 8: Supermarket property net initial yields



Source: Supermarket Income REIT, MSCI

Exhibit 9: Supermarket yields vs Tesco corporate bonds



Source: Supermarket Income REIT, Factset

Investment volumes in the UK supermarket sector remained exceptionally strong in 2020. Colliers estimates c £1.83bn, above the level in 2019 (£1.78bn), which was up 80% compared with 2018. We believe this reflects the typically long-term nature of leases, often inflation-linked, and the non-cyclical, low-volatility nature of the sector. Long-term investor buying interest was substantially met by institutional selling, particularly in respect of open-ended funds in search of liquidity. The investment manager notes that SUPR has been a key supplier of that liquidity over the past year and has been able to buy assets at attractive yields.

EVO partnership boosts asset management opportunity

During FY20 the investment adviser, Atrato, formed a strategic sustainability partnership with EVOEnergy, the UK's leading commercial renewable energy company, to evaluate, execute and manage a range of projects across the portfolio aimed at reducing carbon emissions. This will provide support for SUPR's environment, social and corporate governance (ESG) policy and will be in step with similar policies adopted by the operator tenants, including their efforts to reach carbon neutrality by 2050. The first deliverable from the partnership is the installation of a 370kW rooftop solar array at the Tesco store in Thetford, which will provide c 310k kW per hour of carbon-free electricity. The required investment will improve the environmental sustainability of the site, while also generating an additional incremental income stream and enhancing the long-term capital value. There are plans for similar schemes across the portfolio.

Financials

FY20 showed strong growth but does not reflect the full annualised potential of the growing portfolio

FY20 earnings grew strongly, primarily driven by acquisitions but also including organic inflation-driven growth in like-for-like rental income (2.5%) with a positive impact on like-for-like property valuations (+4.3%) and NAV. However, the FY20 result did not capture the full earnings potential of the end-FY20 portfolio, and of course included no impact from subsequently completed acquisitions or the increased beneficial interest in the Sainsbury's Reversion Portfolio. We briefly review the FY20 results and provide details of our forecasts.

Exhibit 10: Summary of FY20 results

£m unless stated otherwise	FY20	FY19	FY20/FY19	H120	H220
Total rental income	26.4	17.2	52.9%	11.9	14.5
Administrative & other expenses	(5.2)	(3.1)	67.9%	(2.3)	(2.9)
Operating profit before investment property change in fair value	**21.2**	**14.1**	**49.7%**	**9.6**	**11.5**
Net finance expense	(4.9)	(4.2)		(2.5)	(2.5)
Adjusted EPRA earnings	**16.3**	**9.9**	**63.5%**	**7.2**	**9.1**
Share of income from joint venture	0.5	0.0		0.0	0.5
EPRA earnings	**16.8**	**9.9**	**68.4%**	**7.2**	**9.6**
Negative goodwill	3.0	0.0		0.0	3.0
Change in fair value of investment properties	13.1	0.6		0.6	12.5
IFRS earnings	32.8	10.6	209.3%	7.8	25.0
Period end number of shares	473.6	239.8	97.5%	337.9	473.6
Average number of shares	334.2	198.1	68.7%	285.4	383.1
Basic & diluted IFRS EPS (p)	9.8	5.3		2.7	7.1
EPRA & diluted EPS (p)	**5.0**	**5.0**	**0.0%**	**2.5**	**2.5**
DPS (p)	**5.8**	**5.6**	**3.0%**	**2.9**	**2.9**
Dividend cover*	85%	92%		90%	82%
Investment properties	539.4	368.2	46.5%	490.4	539.4
Net assets	477.2	230.5		328.0	477.2
EPRA NAV per share (p)	**101**	**97**	**4.8%**	**97**	**101**
Net balance sheet debt	(106.4)	(133.8)		(158.7)	(106.4)
LTV**	17.9%	36.3%		32.4%	17.9%

Source: Supermarket Income REIT data. Note: *Dividend cover calculated as total EPRA earnings in period as a percentage of total dividends paid. **Adjusted to include JV equity (net debt divided by investment properties plus JV equity).

In particular we note:

- FY20 rental income increased c 53% to £26.4m, although this did not fully reflect the year-end annualised contracted rent roll of £28.7m.
- Administrative and other expense growth of c 68% included an increase in investment adviser fees from £1.8m to £3.2m, driven by the growth in equity/net assets during the period, and an increase in other administrative expenses from £1.3m to £1.8m, reflecting the growth in the business and the high level of corporate activity. The EPRA cost ratio increased to 19.7% compared with 17.9% in FY19. As the assets acquired in FY20 contribute more fully, and with continuing capital deployment, we expect the cost ratio to decline.
- Financing costs increased with growth in average borrowing, partly offset by a lower average cost of borrowing. At end-FY20, the average cost of borrowing was 2.0% compared with 2.3% at end-FY19.
- Adjusted EPRA earnings (before the first-time contribution from the new JV) increased c 64% to £16.3m. EPRA earnings (including the JV contribution) increased c 68% to £16.8m. The company intends to report both measures, as although included in EPRA earnings, the JV profit contribution to SUPR is not reflected in a cash movement/distribution and as the contribution increases (c £5.8m on an annualised basis) its impact on 'cash earnings' will increase, but will also be diluted by continuing portfolio growth. In cash terms, EPRA earnings covered dividends paid by 85%.
- IFRS earnings include c £3.0m of 'negative goodwill' generated by investment in the JV at below its accounting fair value and fair value gains on the investment portfolio.

  The fair value gain of £13.1m reported in the income statement included a gross revaluation gain of £22.4m (4.3% on a like-for-like basis), partly offset by acquisition costs written off and a small adjustment for IFRS rent smoothing. Revaluation gains were substantially driven by RPI-linked rental growth; the flat average portfolio net initial yield of 5.0% includes acquisition mix effects, valuation reductions on assets with shorter duration leases and gains on longer lease assets.

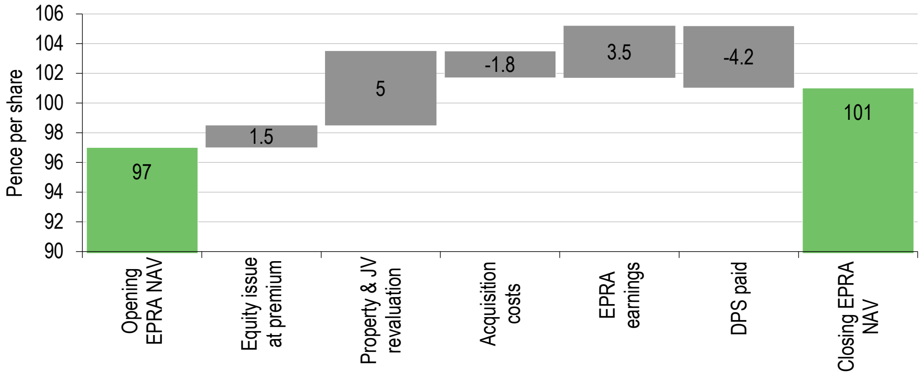
Exhibit 11: Gross and net revaluation gains

£m	FY20	FY19
Gross revaluation	22.4	6.6
Acquisition costs written off	(8.4)	(5.6)
Net revaluation	13.9	1.0
Rent smoothing adjustment	(0.9)	(0.4)
Fair value movement recognised in P&L	**13.1**	**0.6**
Like for like revaluation movement	4.3%	1.3%

Source: Supermarket Income REIT

- EPRA NAV per share increased from 97p at end-FY19 to 101p at end-FY20. Equity issuance at a premium to NAV was accretive, while valuation gains on the directly owned property portfolio were well ahead of acquisition costs. The negative goodwill on the JV investment was also positive. Including DPS paid, the EPRA NAV total return was 10.7%.

Exhibit 12: FY20 EPRA NAV bridge (in pence per share)



Source: Supermarket income REIT

Forecasting further strong growth

The directly owned acquisitions highlighted above have increased the annualised passing rent from £28.8m at end-FY20 to £52.3m, an increase of more than 80%, while we expect the increased interest in the Sainsbury's Reversion Portfolio to add c £5.5m to EPRA earnings on an annualised basis. We estimate that SUPR has invested c £320m (including costs) since closing the October equity raise, substantially committing available equity and debt funding headroom to be consistent with its medium-term loan to value ratio (LTV) target of 30–40%. On a 'pro forma basis', adjusting the end-FY20 equity for the capital raise and subsequent investment (including our estimate of acquisition costs), we estimate an adjusted LTV of just under 40%, although this may well have been reduced by valuation gains over the period and we will have a clearer picture with the interim results on 2 March 2021. In any case, there remains significant flexibility within the expanded debt portfolio to fund further investment should SUPR choose to, but we do not assume this. Our other key assumptions include:

- Rent indexation of 1% in FY21 and 2% in each of FY22 and FY23.
- Investment adviser fees (c 70% of total administrative expenses) in line with the agreed schedules (0.95% pa on the first £500m of net assets and reducing to 0.75% above £500m). Significant growth in other administrative expenses in FY21, linked to the strong transactional activity, but growing modestly thereafter.
- Our forecasts for income and expenses indicate a reduction in the EPRA expense ratio from 19.1% in FY20 (adjusted for non-recurring expenses) to c 15% by end-FY23.
- On a full-year basis we expect SUPR's share of the annualised JV earnings to increase to c £11.0m with £7.5m reported in FY21.

- Finance expense is driven by the increase in average borrowing and we have assumed no material change in average debt costs.
- We have assumed gross portfolio gains in line with rent indexation, implicitly assuming no change in valuation yields, against which we net off acquisition costs and IFRS rent smoothing adjustments. Given the continuing strong investment interest in supermarket property and the prevailing low interest rate environment, our assumption of unchanged valuation yield may prove to be conservative. We estimate that a 0.1% reduction/increase in the FY21 valuation yield would increase/decrease FY21e EPRA NAV per share by c 3p.

  Across the sector, in recent years, supermarket rents linked to inflation have risen faster than open market rents, such that they are in many circumstances above market rent levels. This will typically act as a drag on valuations as lease expiry approaches (particularly where the unexpired lease length falls below 10 years), reflecting the potential future income decline. SUPR's long 16-year weighted average WAULT mitigates the risk of negative portfolio valuation impacts for many years to come, while the potential to re-gear leases on well-performing stores, well ahead of lease expiry, should also provide an offset. Asset management also offers the potential to increase rental income and potentially extend leases. Valuations may be further protected by carefully selecting stores with good potential for alternative use over the longer term.

Exhibit 13: Summary of revaluation assumptions

£m	FY20	FY21e	FY22e	FY23e
Gross revaluation	22.4	7.0	19.7	20.1
Acquisition costs written off	(8.4)	(30.9)	0.0	0.0
Net revaluation	13.9	(24.0)	19.7	20.1
Rent smoothing adjustment	(0.9)	(1.8)	(2.1)	(2.1)
Fair value movement recognised in P&L	**13.1**	**(25.7)**	**17.6**	**18.0**
Like-for-like revaluation movement	4.3%	1.0%	2.0%	2.0%

Source: Edison Investment Research forecasts

Exhibit 14 shows a summary of our forecasts. We expect FY22 rental income to more than double compared with FY20 as acquisitions make a full-year contribution, with a geared impact on EPRA earnings due to economies of scale. As a result, we expect DPS to continue to increase with inflation and be well covered by EPRA EPS (c 1.1x in FY21 and increasing to c 1.2x in both FY22 and FY23). On an adjusted EPRA EPS basis (which excludes the non-cash JV contribution), we expect DPS to be substantially covered (c 0.9x in FY21 and increasing through FY22 and FY23). We expect a dip in EPRA NAV per share in FY21 as a result of significant acquisition costs written off, continuing to increase thereafter.

Exhibit 14: Summary of key forecast data

£m unless stated otherwise	FY20a	FY21e	FY22e	FY23e
Rental income	26.4	46.7	54.9	56.0
EPRA earnings	**16.8**	**39.6**	**48.3**	**49.1**
JV contribution	0.5	7.5	11.0	11.0
Adjusted EPRA earnings	**16.3**	**32.0**	**37.3**	**38.1**
EPRA EPS (p)	5.0	6.4	7.2	7.4
Adjusted EPRA EPS (p)*	4.9	5.2	5.6	5.7
DPS (p)	5.8	5.9	6.0	6.1
EPRA NAV per share (p)	101	98	102	106

Source: Edison Investment Research forecasts. Note: *EPRA EPS adjusted to exclude the non-cash JV earnings contribution.

Expanded debt relationships support continued growth

SUPR has continued to expand its banking relationships and broaden its portfolio of debt facilities over the past year and we expect this to continue.

Total debt at end-FY20 was £128.5m and after adjustment for cash balances, the net loan to value ratio (LTV) was 19.7% (net debt/investment properties) or 17.9% if adjusted for the JV equity (net debt/investment properties plus JV equity). We focus on the adjusted LTV in this report. For completeness, SUPR also provided the LTV on a 'look-through' basis as if its share of the JV portfolio and debt were consolidated into its own balance sheet. As the JV is a securitised vehicle (although the debt amortises over time), this shows a higher LTV (22.3% at end-FY20).

New facilities arranged in FY20 included a fully drawn £76.6m term facility (five years plus two one-year extension options) with DekaBank at a fixed coupon of 2.0% arranged in August 2019, and further facilities have been agreed in FY21 including:

- In July 2020, a £60m secured revolving credit facility (RCF) with Wells Fargo with a five-year term (plus two one-year extension options). Once drawn, the margin is 2.0% over Libor. The facility also includes a £100m accordion option that may be exercised at any time over the term of the facility.
- In August 2020, the existing Bayerische Landesbank facility was increased by £34.8m, comprising a new five-year £27.5m secured tranche and a £7.3m upsizing of the existing £52.1m term loan, both priced at 1.85% above Libor.
- In September 2020, the existing £100m HSBC RCF (priced at 1.65% over Libor) was increased by £40m, with the additional facility priced at 1.75% above Libor.
- In January 2021, a new £80m RCF was agreed jointly with Barclays and Royal Bank of Canada at a margin of 1.50% above the new SONIA benchmark lending rate. The facility includes a £70m uncommitted accordion option that may be exercised at any time.

Total debt facilities available to the group of £228.7m at the end of FY20 have since increased to £443.5m, as shown in Exhibit 15. We forecast total borrowing of up to c £450m (adjusted LTV c 39–40%), which implicitly assumes some small exercise of the accordion options amounting to up to £200m.

Exhibit 15: Summary of current debt portfolio

Lender	Facility	Maturity	Facility size (£m)
HSBC	Revolving credit facility	Aug-22	140.0
Bayerische Landesbank	Term loan	Jul-23	59.4
Bayerische Landesbank	Term loan	Aug-25	27.5
Deka Bank	Term loan	Aug-26	76.6
Wells Fargo	Revolving credit facility	Jul-27	60.0
Barclays/Royal Bank of Canada	Revolving credit facility	Jan-26	80.0
Total			**443.5**

Source: Supermarket Income REIT

The recent financing activity has significantly increased the average maturity of the debt facilities; we estimate a current average c 5.5 years. All of the debt is floating rate, but a hedging strategy is in place designed to mitigate the impact of any significant rise in interest rates. We estimate that including the cost of hedging, the average running cost of the group's total debt facilities is c 2.0%.

There is significant headroom on debt covenants, which include a maximum 60% LTV threshold and minimum 200% interest cover ratio for each asset in the portfolio. As at end-FY20, it would require a 38% reduction in property values to breach the LTV covenant. Interest cover for the group is currently around 600%.

Placing programme supports ongoing growth opportunities

The company has recently indicated that it continues to identify further suitable acquisition opportunities that meet its strict selection criteria and, with current capital resources now effectively and successfully deployed, in time we would expect it to seek additional capital. The October 2020 issue of 192.3m new shares formed part of the placing programme, approved by shareholders, which allows for the issue of up to 450m shares in total during the 12 months commencing 17 September 2020. The placing programme provides greater flexibility to tailor equity issuance to the immediate pipeline in order to minimise cash drag. Share issuance at a discount to NAV is not allowed under the programme and the intention is that shares should be issued at a premium to NAV sufficient to at least cover issuance costs.

Returns and valuation

The 7–10% NAV total return targeted by SUPR is the product of rental income increasing with RPI, supporting dividend growth and, to the extent that property valuation yields do not change, NAV growth. Targeted returns also assume a benefit from gearing, which the company expects to be in the 30–40% range over the medium term and once the portfolio growth phase moderates.

SUPR has performed strongly since IPO, consistently deploying capital resources swiftly to reduce cash drag, acquiring well-performing assets and benefiting from increased scale and diversification. Total accounting return (the change in EPRA NAV plus dividends paid) has steadily increased, reaching 10.7% in FY20 and taking the cumulative total to 20.4% since IPO (dividends paid added back but not reinvested). The compound annual accounting return of 6.5% increases to 10.0% if the significant property acquisition costs incurred in building the portfolio are added back. Dividends have been increased in line with inflation each year and dividends paid in the period represent 78% of the accounting total return since IPO, or 49% if returns are adjusted for acquisition costs.

Our forecasts indicate a dip in NAV total return in FY21, primarily as a result of acquisition costs incurred in the growth of the portfolio, and despite the swift deployment and minimal 'cash drag' from investment of the significant equity proceeds raised. With current equity capital resources deployed and geared during FY21, our FY22 forecasts assume no acquisition cost impact and, supported by a full-year revenue impact from the FY21 acquisitions with economies of scale/reduced cost ratio, we forecast a FY22 total return at the top of the target range.

Exhibit 16: Reported and underlying* accounting (NAV) total return

	FY18	FY19	FY20	IPO to end-FY20	FY21e	FY22e
Opening NAV per share (p)	97**	96	97	97	101	98
Closing NAV per share (p)	96	97	101	101	98	102
DPS paid (p)	4.1	5.6	5.8	15.5	5.9	5.9
NAV total return	**3.4%**	**6.6%**	**10.7%**	**20.4%**	**2.7%**	**10.1%**
Annual average compound return				**6.5%**		
Adjust for property acquisition costs per share (p)	7.7	2.3	1.8	11.8	4.6	0.0
Underlying NAV total return	**11.1%**	**9.0%**	**12.6%**	**32.5%**	**7.3%**	**10.1%**
Average annual compound adjusted return				**10.0%**		

Source: Supermarket Income REIT data, Edison Investment Research. Note: *Underlying accounting return adds back acquisition costs written off. **Adjusted for IPO issuance costs.

Based on the company's FY21 target aggregate DPS of 5.86p (SUPR shares yield a prospective 5.4%.) The share price premium to end-FY20 EPRA NAV per share is 8%, although we expect NAV per share to reduce slightly in FY21 as a result of the acquisition costs incurred. Based on our FY21e EPRA NAV per share, the premium is 11%.

In Exhibit 17 we show a comparison of SUPR with a group of other property companies that focus on income returns derived from long leases. Within the group, valuations and performance over the past year partly reflect investor perceptions of the strength of the tenant covenant. For example, the primary healthcare investors (Assura, PHP), where rents are paid directly to the companies by government or indirectly via GP reimbursement, have below average yields and above average P/NAV ratios. Compared with the group average, SUPR has a higher yield and similar P/NAV ratio to the average. Its RPI-linked rent growth provides investors with considerable visibility of income with protection against inflation, and the strength of its tenant covenant has been successfully tested during the pandemic.

Exhibit 17: Summary of long lease REITS

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					One month	Three months	12 months	From 12-month high
Assura	73	1762	1.30	3.9	-4%	-6%	-11%	-17%
Impact Healthcare	111	354	1.01	5.7	2%	4%	2%	-5%
Civitas Social Housing	107	669	0.99	5.0	3%	1%	9%	-7%
LXi	128	668	1.06	4.3	8%	6%	-6%	-9%
Primary Health Properties	148	1805	1.36	4.0	0%	0%	-8%	-11%
Secure Income	306	988	0.79	5.3	-2%	7%	-34%	-35%
Target Healthcare	113	517	1.04	5.9	-2%	-1%	-7%	-9%
Triple Point Social Housing	108	380	1.02	4.8	0%	1%	11%	-5%
Tritax Big Box	186	3178	1.20	3.4	1%	13%	27%	-1%
Average			**1.09**	**4.7**	**1%**	**3%**	**-2%**	**-11%**
Supermarket Income	109	516	1.08	5.4	1%	5%	2%	-4%
UK property index	1,602				1%	0%	-18%	-18%
FTSE All-Share Index	3,755				-1%	5%	-9%	-10%

Source: Company data, Refinitiv. Prices as at 18 January 2021. Note: *Based on last reported EPRA NAV/NTA. **Based on last 12 months DPS declared.

Sensitivities

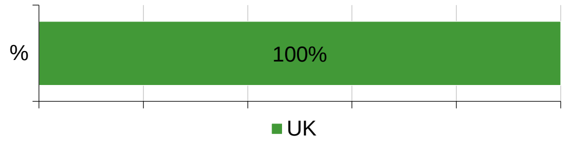
The visibility to SUPR's contractual income is provided by long leases and inflation-linked rent increases. Additionally, the company plans further accretive acquisition of assets. We see the key sensitivities as relating to the following:

- The failure of any of the tenants could negatively affect contractual incomes if this involved a void period or a need to re-let the space on less advantageous terms. SUPR seeks to mitigate this risk by targeting institutional-grade tenants with multi-billion-pound revenues and strong consumer brands.
- In recent years, supermarket rents linked to inflation have risen faster than open market rents, such that they are in many circumstances above market rent levels. If this were to remain the case, as lease expiry approaches it is likely that property valuations would be negatively affected, reflecting the possibility that rental income would decline at lease expiry unless offset by lease regears or other asset management initiatives. SUPR believes that its long 16-year WAULT offers protection for many years to come and that its targeted asset selection provides considerable mitigation opportunities.
- Inflation-linked rent increases provide good income protection against inflation, providing inflation does not rise too far. The inflation-linked increases for SUPR's assets are capped, at an average level of c 3.5%, which means that should inflation increase significantly, the growth in income could lag the growth in expenses and funding costs. Given the relative security of the tenant base, such conditions may be expected to generate more significant challenges to the mainstream commercial property market.
- As noted above, debt facilities currently amount to c £364m with an average term to maturity of c four years. The debt is all floating rate but a hedging strategy in place mitigates against a significant increase in interest rates. Nonetheless, earnings would be affected by an increase in real interest rates, currently at historically low levels. A rise in long-term interest rates, also at historically low levels, could negatively affect valuations across the commercial property sector.

Exhibit 18: Financial summary

Year ended 30 June	2018	2019	2020	2021e	2022e	2023e
£000's						
INCOME STATEMENT						
Rent receivable	8.5	16.9	25.5	44.9	52.8	53.9
Rent smoothing adjustment	0.5	0.4	0.9	1.8	2.1	2.1
Total rental income	8.9	17.2	26.4	46.7	54.9	56.0
Administrative & other expenses	(2.1)	(3.1)	(5.2)	(8.0)	(8.2)	(8.4)
Operating profit before investment property change in fair value	6.8	14.1	21.2	38.7	46.7	47.6
Change in fair value of investment properties	(4.1)	0.6	13.1	(25.7)	17.6	18.0
Share of profit of jv	0.0	0.0	0.5	7.5	11.0	11.0
Negative goodwill	0.0	0.0	3.0	0.0	0.0	0.0
Operating profit/(loss)	2.8	14.8	37.7	20.5	75.3	76.6
Net finance expense	(1.9)	(4.2)	(4.9)	(6.6)	(9.5)	(9.5)
Profit/(loss) before tax	0.8	10.6	32.8	13.8	65.9	67.1
Tax	(0.2)	(0.0)	0.0	0.0	0.0	0.0
Profit/(loss) for the period	0.6	10.6	32.8	13.8	65.9	67.1
Adjust for:						
Changes in fair value of investment property	4.1	(0.6)	(13.1)	25.7	(17.6)	(18.0)
Negative goodwill	0.0	0.0	(3.0)	0.0	0.0	0.0
EPRA earnings	4.7	9.9	16.8	39.6	48.3	49.1
Share of profit of jv	0.0	0.0	(0.5)	(7.5)	(11.0)	(11.0)
Adjusted earnings	4.7	9.9	16.3	32.0	37.3	38.1
Closing number of shares (m)	184.4	239.8	473.6	666.1	666.1	666.1
Average number of shares in issue (m)	124.2	198.1	334.2	614.3	666.1	666.1
IFRS EPS (p)	0.5	5.3	9.8	2.3	9.9	10.1
EPRA EPS (p)	3.8	5.0	5.0	6.4	7.2	7.4
Adj EPS (p)	3.8	5.0	4.9	5.2	5.6	5.7
DPS declared (p)	5.50	5.63	5.80	5.86	5.98	6.10
EPRA earnings/dividends paid	103%	92%	85%	109%	121%	121%
Adj. earnings/dividends paid	103%	92%	83%	88%	94%	94%
BALANCE SHEET						
Investment property	264.9	368.2	539.4	980.5	1,000.2	1,020.3
Associate	0.0	0.0	56.1	121.1	132.1	143.1
Other non-current assets	0.0	0.0	56.1	121.1	132.1	143.1
Total non-current assets	264.9	368.2	595.5	1,101.6	1,132.3	1,163.4
Trade & other receivables	1.0	3.5	1.7	2.7	2.8	2.8
Cash & equivalents	2.2	9.9	20.4	3.7	7.6	3.3
Total current assets	3.3	13.4	22.1	6.4	10.3	6.1
Deferred rental income	(1.7)	(3.5)	(5.2)	(5.2)	(5.2)	(5.2)
Current tax liabilities	(0.2)	(0.2)	0.0	0.0	0.0	0.0
Trade &other payables	(1.5)	(2.6)	(6.4)	(8.0)	(8.3)	(8.4)
Total current liabilities	(3.4)	(6.4)	(11.6)	(13.2)	(13.5)	(13.7)
Bank borrowings	(88.1)	(143.7)	(126.8)	(442.0)	(450.2)	(450.4)
Interest rate derivatives	0.0	(1.1)	(2.0)	(2.1)	(2.1)	(2.2)
Total non-current liabilities	(88.1)	(144.8)	(128.8)	(444.0)	(452.3)	(452.6)
Net assets	176.7	230.5	477.2	650.8	676.8	703.3
IFRS NAV per share (p)	96	96	101	98	102	106
EPRA NAV per share (p)	96	97	101	98	102	106
CASH FLOW						
Net cash from operations	8.1	13.9	27.2	37.5	44.8	45.6
Acquisition & investment in investment property	(254.5)	(85.5)	(148.8)	(434.1)	0.0	0.0
Capitalised acquisition costs	(14.1)	(5.6)	(8.4)	(30.9)	0.0	0.0
Investment in associate	0.0	0.0	(52.6)	(57.5)	0.0	0.0
Tax paid	0.0	0.0	(0.2)	0.0	0.0	0.0
Net cash from investing activity	(268.7)	(91.1)	(210.1)	(522.5)	0.0	0.0
Share issuance (net of costs)	180.9	43.9	234.8	196.0	0.0	0.0
Debt drawn/(repaid)	88.8	56.1	(16.2)	315.0	8.0	0.0
Interest paid and other financing costs	(2.3)	(4.3)	(5.6)	(6.4)	(9.2)	(9.2)
Dividends paid	(4.6)	(10.9)	(19.6)	(36.2)	(39.8)	(40.6)
Net cash from financing activity	262.8	84.8	193.4	468.4	(41.0)	(49.9)
Change in cash	2.2	7.7	10.5	(16.6)	3.8	(4.3)
Opening cash	0.0	2.2	9.9	20.4	3.7	7.6
Closing cash	2.2	9.9	20.4	3.7	7.6	3.3
Debt as per balance sheet	(88.1)	(143.7)	(126.8)	(442.0)	(450.2)	(450.4)
Net debt	(85.9)	(133.8)	(106.4)	(438.2)	(442.6)	(447.1)
Adjusted LTV (including JV equity)	32.4%	36.3%	17.9%	39.8%	39.1%	38.4%

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
8 Greencoat Place London SW1P 1PL UK +44 20 3790 8087 www.supermarketincomereit.com	

Leadership team

Chairman, Supermarket Income REIT: Nick Hewson	Principal, Atrato Capital: Ben Green
Nick Hewson was co-founder, CEO and chairman of Grantchester Holdings, where he worked from 1990 until 2012. Nick currently serves as a non-executive director and chair of the audit committee at Redrow, a FTSE 250 company and one of the UK's leading housebuilders. Prior to this, Nick was chair of the executive committee of Pradera AM, a European retail property fund management business. Nick was also a founding partner of City Centre Partners.	Ben has over 20 years' experience in structuring and executing real estate transactions, and has completed £4bn of supermarket sale and leaseback transactions over the course of his career. Ben qualified as a lawyer in 1997 and worked at Wilde Sapte and Linklaters. He left law in 2000 and has since spent his career at Barclays, Lloyds and Goldman Sachs, where he was a managing director and European head of structured finance.
Principal, Atrato: Steve Windsor	**Partner, Atrato Capital: Steven Noble**
Steve spent 16 years at Goldman Sachs, specialising in finance and risk management. He became a partner at Goldman Sachs in 2008 and headed its European, Middle East and African debt capital markets and risk management businesses from 2010 until 2016. Steve has helped and advised a number of FTSE 100 companies on how to finance their business and manage risk. He was a member of the Goldman Sachs Investment Banking Risk Committee.	Steven spent nine years at Lloyds in origination and risk management with a focus on commercial real estate. He has negotiated and executed over £900m of supermarket property transactions. Prior to Lloyds, Steven was at KPMG where he qualified as a chartered accountant. He is a fellow of the Institute of Chartered Accountants Ireland and holds the Chartered Financial Analyst designation.

Principal shareholders (Source: Supermarket Income REIT as at December 2020)	(%)
Close Brothers Asset Management	5.84
Quilter Cheviot Investment Management	5.64
Aberdeen Standard Investments	4.81
Premier Miton Investors	4.78
Thames River Capital	4.54
Smith & Williamson Wealth Management	4.28
Cazenove Capital Management	4.02
West Yorkshire Pension Fund	3.79
BMO Global Asset Management	3.69
Cannacord Genuity Wealth Management (Inst)	3.29
Waverton Investment Management	2.90

Companies named in this report

Assura (AGR), Civitas Social Housing (CHA); Impact Healthcare (IHR), Primary Health Properties (PHP), Secure Income REIT, Target Healthcare (THRL), Triple Point Social Housing (SOHO); Tritax Big Box (BBOX)

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