EDISON

Supermarket Income REIT

Update post equity raise

Funded for identified further growth

Real estate

In this note, we provide an update on Supermarket Income REIT's (SUPR's) continuing growth prospects following completion of the equity raise in April and entry into the FTSE 250 and EPRA NAREIT stock indices. Income growth is supported by acquisitions, mostly index-linked rents, strong tenant covenants and positive structural trends in the market. We expect a continuation of progressive DPS despite increasing debt funding costs.

Year end	Rental income (£m)	EPRA earnings (£m)	EPRA EPS* (p)	NAV*/share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/21	47.9	36.8	5.6	108	5.86	1.10	4.9
06/22e	71.0	58.3	6.0	115	5.94	1.03	5.0
06/23e	100.0	68.5	5.5	117	6.00	1.01	5.1
06/24e	122.7	70.5	5.7	120	6.10	0.98	5.1

Note: *EPRA EPS is normalised, excluding gains on revaluation and other non-recurring items. **NAV is EPRA net tangible assets.

Strong investment proposition

Strong investor demand for the late April £300m, upsized equity raise, the recent award of an Investment Grade credit rating, and SUPR's entry into the unsecured debt market, are all evidence of the strength and appeal of its business model. Ahead of the equity raise SUPR's strong pipeline of near-term investment opportunities amounted to c £270m, at an average c 5% net initial yield, with a longer-term pipeline of c £440m. SUPR has a strong track record of swift capital deployment, and we expect this to continue despite the market-driven increase in debt funding costs. Our updated forecasts include positive acquisition effects, partly offset by inflation-led increases in administrative and debt costs. With more shares in issue, we forecast lower EPRA EPS (c 10%) but continue to expect DPS and NAV growth, with the former fully covered by FY25.

Visible income and growth potential

The attraction of SUPR's investment proposition is based on robust and visible income growth with further potential for capital growth. This has been the basis for the sector's long track record of positive total returns. SUPR's portfolio of high-quality omnichannel supermarkets (combining in-store and online fulfilment) is let on long average leases, with predominantly upwards-only, inflation-linked rents, to strong tenant covenants. The non-discretionary nature of grocery sales has historically supported the sector in an inflationary environment. Omnichannel stores further benefit from the structural shift to online shopping, although this is yet to be fully reflected in asset values. Tenants continue to demonstrate their ability to mitigate supply chain cost pressures through price increases and although there are signs of margin pressure their cash flows remain robust.

Valuation: Well supported income visibility

Since listing in July 2017, SUPR has paid increasing dividends and has generated consistently positive returns in line with its 7–10% pa target. Its FY22 DPS target of 5.94p represents a yield of 5.0%, in line with a selected peer group of other long-income REITs and supporting the c 5% premium to end-H122 NAV.

6 July 2022

Price	**118.5p**
Market cap	**£1,469m**

Net debt (£m) as at 31 December 2021	454.0
Net LTV as at 31 December 2021	32.1%
Shares in issue	1,239.9m
Free float	100%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(7.8)	(8.9)	0.0
Rel (local)	(0.6)	0.0	6.0
52-week high/low		133p	116p

Business description

Supermarket Income REIT, listed on the Premium 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

FY22 results	Exp. Sept. 2022

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Edison profile page

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

Visible income and growth potential

This note provides an update on our outlook note published in March 2022, providing a detailed review of SUPR's strategy and prospects.

Equity and debt capital increase

The offer that closed on 26 April 2022 resulted in £300m (gross) being raised by the issue of 247.9m new shares under SUPR's existing placing programme and an additional £6.7m from the issue of 5.6m shares in a PrimaryBid offering, specifically targeting retail investors. As a result, the number of shares in issue increased by 253.5m or nearly 26%. The issue price of 121p represented a 7.1% premium to the 31 December 2021 (end-H122) EPRA NTA per share of 113p and a discount of 4.3% to the 126.5p share price immediately before the offer was announced. Of the 450m shares authorised under the placing programme that expires in October 2022, 22.6m remain available for issue.

The proceeds of the equity raise have initially been used to reduce outstanding drawn debt, but we expect these will be deployed during FY23 to fund acquisitions. The debt refinancing, announced on 4 July 2022, represents SUPR's first unsecured financing and provides additional, more flexible debt funding and enhances the overall average debt average maturity[1]. It has been made possible by the increased scale and diversification of SUPR's portfolio, the strong fundamentals of the sector and SUPR's recently awarded Investment Grade credit rating. The proceeds of a new unsecured £412.1m unsecured credit facility with a syndicate of banks[2] will be used in part to refinance £294m of existing secured commitments (of which £255m will be retired), providing £157m of additional debt capital. The new unsecured facility has a margin of 1.5% over SONIA and a weighted average term of six years (inclusive of uncommitted extension options). It consists of three tranches:

- a £250m seven-year revolving credit facility (RCF), comprising an initial five-year term and two one-year extension options;
- a £100m five-year term loan, comprising an initial three-year term and two one-year extension options; and
- a £62.1m three-year term loan, comprising an initial 18-month term with one 18-month extension option.

Significant pipeline of investment opportunities

Through its investment adviser (Atrato Capital) SUPR has built a strong record of swift capital deployment. This has been achieved by identifying a range of suitable assets ahead of capital raising, primarily off-market and at an advanced stage of due diligence or under exclusivity. By having a range of opportunities, its bargaining position is protected, and swift deployment has usually followed.

Ahead of the April 2022 equity issue, SUPR's provided details of a strong pipeline of investment opportunities. As is normal, we would not expect its actual investment to completely match this

[1] We estimate the overall weighted average debt maturity to be c 4.2 following the refinancing.

[2] The syndicate comprises Barclays, Royal Bank of Canada, and Wells Fargo, all existing lenders to SUPR, as well as Bank of Scotland International.

pipeline, but it does provide confidence in the company's ability to deploy its available capital in a timely fashion. The April pipeline comprised:

- Assets with an aggregate value of c £150m under exclusivity.
- Assets with an aggregate value of c £120m in an advanced stage of due diligence.
- The above assets support physical and online sales channels with a weighted average unexpired lease term (WAULT) of 14 years and expected net initial yield of c 5%. Given the strength of SUPR's pipeline, we are confident in its ability to deploy the proceeds but, as is normal, the particular assets that are acquired are likely to evolve.
- A further pipeline of assets with an aggregate value of c £440m that meet SUPR's strict investment criteria.

Following previous capital raises, SUPR has generally been able to deploy equity proceeds within three months and achieve full deployment, including associated debt capital, within six months. In the current rising interest rate environment, it is important that the company remains disciplined in its investment decision making to generate positive return for shareholders. Although this could cause a slight delay, we expect currently available capital to be deployed into £500m of acquisitions before the end of 2022 (by end-H123).

Deployment has begun

The acquisitions of the Chineham Shopping Park in Basingstoke, anchored to a top trading[3] Tesco superstore, and an Asda supermarket in Carcroft, Doncaster, announced on 4 July 2022 for a combined £82.9m (before costs), are SUPR's first since closing the equity raise in late April. The purchase prices reflect a combined net initial yield of 4.9%.

The omnichannel Tesco superstore on the Chineham site has a c 61k sq ft net sales area and operates as an online hub, supporting 13 home delivery vans and a dedicated click and collect facility in the car park. The site also includes an M&S Foodhall, an Iceland store and other complementary non-food tenants, collectively generating strong footfall. It has been acquired with a remaining lease term of 12 years and is subject to five-yearly open-market rent reviews.

The Ada supermarket at Carcroft, with a net sales area of c 46k sq ft is also an omnichannel store, supporting local online fulfilment through click and collect. The property has been acquired from Asda, which has operated on the site since the 1970s with the store being fully refurbished in 2019, under a sale and leaseback transaction. The new, 100-year lease is subject to five-yearly upwards-only rent reviews linked to CPI (capped at 2.5% with a floor at 0.0%).

Other recent transactions

During H122, SUPR acquired eight supermarket assets for an aggregate £243m (before acquisition costs) at an accretive net initial yield of 4.5% and average 16-year WAULT.

Ahead of the April equity raise, during H222 SUPR has announced the acquisitions of a further three supermarkets with a weighted average net initial yield of 4.8% and WAULT of 19 years for a total consideration of £128.3m (before acquisition costs). These comprise:

- January 2022: Sainsbury's in Washington and Asda in Cwmbran for £55.1m with a WAULT of 21 years. The Sainsbury's has seven-yearly, upwards-only, RPI-linked rent reviews and the Asda has five-yearly, upwards-only, open market rent reviews.
- January 2022: Tesco in Sheffield for £73.2m with a 17-year unexpired lease term and annual, upwards-only, RPI-linked rent reviews.

[3] Source: Atrato Capital.

Included in the acquisitions above were two non-food, quick service restaurant units for a combined £2.5m (before acquisition costs).

The strong development of SUPR's direct portfolio can be seen in Exhibit 1. By end-FY22, prior to the Chineham and Carcroft acquisitions, the direct investment portfolio comprised 41 stores with a valuation that we expect to be more than £1.5bn.

Exhibit 1: Direct portfolio investment*

	H118	H218	H119	H219	H120	H220	H121	H221	H122	FY22e
Portfolio valuation (£m)	208	265	321	368	490	539	885	1,148	1,414	>1,500
Contracted rent roll (£m)	10.7	13.6	16.5	19.2	26.1	28.7	46.1	57.8	70.2	79.8
Number of stores	4	5	6	7	9	19	27	30	38	41
Net assets (£m)	113	177	321	230	328	477	692	871	1,115	
Net LTV	44.5%	32.4%	43.0%	36.3%	32.4%	19.7%	27.0%	34.0%	32.1%	

Source: Supermarket Income REIT, Edison Investment Research. Note: *Excludes SUPR's beneficial interest in the Sainsbury's Reversion Portfolio.

Inflation benefits and mitigation

Secure and robust income

Inflation-linked rental uplifts apply to 85% (76% RPI and 9% CPI) of passing rent.[4] Although indexed rent uplifts are capped at an average c 4%, below the current level of inflation, SUPR nonetheless benefits from strong visibility of income growth, at a rate that maintains the affordability of rents for operators and compared with open market rent levels. Given the non-discretionary nature of most grocery sales, supermarkets have historically benefited from an inflationary environment, with their ability to mitigate supply chain cost pressures through price increases. We expect this to continue to be the case. Although it appears that operators are currently experiencing some margin pressures as grocery prices increase, including the effects of consumers 'trading down' to lower-cost alternatives and in some cases reducing the 'volume' of their shopping baskets, there are offsets such as eating more at home. Operator cash flow remains strong and rents affordable. The investment adviser estimates that store rents typically represent a relatively low share of store turnover and that market rent levels tend to track store turnover over the medium term. It estimates the average rent to turnover ratio across the portfolio is c 4%,[5] which it believes indicates that rents remain highly affordable and while grocery inflation outstrips rent caps, this affordability should improve further.

Funding cost pressures

SUPR has a relatively high share of variable rate debt, the cost of which has risen noticeably in recent weeks. At end-H122, 44% of drawn debt was fixed/hedged ('the hedge ratio').[6] SUPR's hedging strategy, designed to mitigate the impact of significant increases in interest rates, targets a hedge ratio of 60% or more and we believe that the company had anticipated using the increased borrowing flexibility arising from its recent Investment Grade credit rating[7] to increase this towards its target, including the introduction of fixed-rate, long-term, unsecured bond funding or private placements.[8] SUPR considers that the strong rise in interest rates has for now significantly reduced the attractiveness of fixing or hedging the cost of more of its debt but, understandably, is watching

[4] Based on the H122 portfolio.

[5] Based on Atrato Capital estimates of store trading.

[6] Based on total debt facilities rather than drawn debt the H122 hedge ratio was 30%.

[7] The Investment Grade credit rating of BBB+ (stable outlook) awarded by Fitch Ratings in February 2022.

[8] Around 30% of total debt facilities, including undrawn amounts, are currently fixed/hedged.

market developments closely. Implied market expectations are that the benchmark SONIA rate will moderate in the coming months.

The refinancing announced on 4 July 2022, at a 1.5% margin over SONIA, has a positive impact on SUPR's average portfolio margin but this is more than outweighed by the upwards move in SONIA. Based on the current level and structure of borrowings we expect the hedge ratio to have increased to c 50% although based on total debt facilities rather than drawn debt facilities, we expect the hedge ratio to be slightly lower than previously. Including amortisation of loan arrangement fees, the weighted average finance cost was c 2.5% pa at end-H122 compared with the running interest cost of c 1.9% pa. Given the subsequent increase in market interest rates, we estimate the current running cost of interest to have increased to c 3.0%, with a total average finance cost of c 3.5%.

Acquisition opportunities despite rise in interest rates

Based on a loan to ratio (LTV) of 40%, the equity yield of c 5.0%, the average cost of debt and adviser fees at a marginal rate of 0.65% of NAV, we estimate a 'break-even' acquisition yield of 4.8%. Based on our assumed acquisition yield of 5.0%, and despite the recent increase in market interest rates, this continues to provide a margin for SUPR to grow without diluting dividend cover. We forecast net assets to rise above £1.5bn by FY24 where the marginal management fee drops to 0.45% from the current 0.65%.

We would not expect SUPR to benchmark every transaction strictly against the 'break-even' level as its investment strategy seeks to balance risks and returns across the portfolio, seeking a spread of counterparties, assets and lease terms. While long leases provide income visibility, shorter leases may provide enhanced returns, blending a higher immediate yield with asset management opportunities to regear (extend) the lease. On a limited number scale, we would expect SUPR to acquire additional assets subject to open market rent reviews where the investment case is strong.

Secure income should support capital values

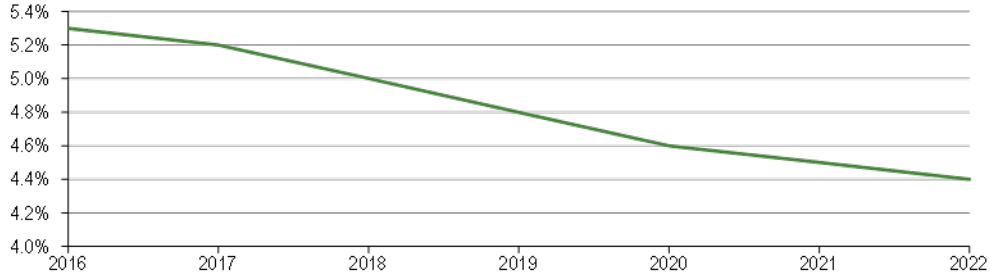
Since SUPR listed in July 2017, acquisition yields for supermarket assets have steadily compressed (store prices have risen), largely driven by strong investment demand for the secure income that supermarket assets provide, with those that have inflation-linked or fixed-uplift rents (as opposed to those with rents reviewed on an open market basis) providing good visibility of income growth. This yield compression has been reflected in the valuation of SUPR's portfolio assets and in its NAV. Given the high degree of correlation between inflation and food prices and the level of investor appetite in the sector, SUPR expects continuing growth in both supermarket rents and for this to be reflected in capital values. This is particularly the case for omnichannel stores, the focus of SUPR's investment, where their positive outlook is yet to be fully differentiated in market-wide valuations.

Importantly, despite yield compression, SUPR sees further potential for accretive acquisition-led growth using what it believes to be its information and relationship advantage. This may give it an insight into store trading and help it to identify those stores that are strategically important to the operators, supporting its ability to source attractive stores from the very large volume of market transactions. Although not expected, should global economic and pollical challenges become reflected in higher yields, while this would affect asset valuations,[9] it would increase the income return on acquisitions.

[9] Valuations would continue to benefit from rent growth.

Over the past three years,[10] there have been c £5bn of transactions in the UK supermarket sector. In addition to SUPR, significant investors such as Realty Income, a large US REIT, have been active in the market, while Tesco has also been active in repurchasing assets as an alternative to leasing. Exhibit 2, produced by SUPR, tracks whole of market transaction yields in respect of its target market (more than 10 years remaining lease length with fixed or index-linked rent uplifts). Acquisition yields for these assets have compressed from c 5–6% at the time of SUPR's IPO to c 4.4%.[11] This is below the 4.7% net initial yield of SUPR's portfolio, which the company believes reflects a conservative approach by valuers.

Exhibit 2: Atrato supermarket property yield series



Source: Supermarket Income REIT as calculated by Atrato Capital

Financials and forecast update

The April 2022 equity raise and the sharp rise in interest rates are the main drivers of our forecast changes. The number of shares in issue has increased by 26% and, on a geared basis, the c £300m of additional equity capital supports a c £500m increase in assumed acquisitions, before reinvestment of the JV proceeds. The increase in market interest rates has increased our forecast for annualised total finance expense (including amortisation of loan arrangement fees) to a peak of c 4.0% by end FY23, subsequently declining to c 3.6% by end-FY25 compared with our last published c 2.9%. Our forecasts for running interest costs (before amortisation of loan arrangement fees) are based on market expectations reflected in the three-month compounded SONIA forward curve. The implied increase in the UK base rate by at least 1.5% from the current 1.25% may prove pessimistic if uplifts are constrained by consideration of the impacts on the economy and living standards.

In addition, the continued increase in inflation has a positive effect on underlying index-linked rental income, partly offset by administrative cost increases.

Exhibit 3: Forecast revisions

	Rental income (£m)			EPRA earnings (£m)			EPRA EPS (p)			EPRA NAV/share (p)			DPS (p)		
	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
06/22e	71.0	71.2	0%	58.3	56.5	3%	6.0	6.1	-2%	115	114	1%	5.94	5.94	0%
06/23e	100.0	82.7	21%	68.5	61.4	12%	5.5	6.2	-11%	117	119	-2%	6.00	6.10	-2%
06/24e	122.7	95.7	28%	70.5	62.2	13%	5.7	6.3	-10%	120	122	-1%	6.10	6.25	-2%
06/25e	130.2	100.6	29%	78.2	65.8	19%	6.3	6.7	-6%	126	127	0%	6.28	6.41	-2%

Source: Edison Investment Research

Key forecasting assumptions

In addition to the already announced forecasts referred to above, we assume:

[10] Data sourced from SUPR as at 31 December 2022.

[11] SUPR data as at end-H122.

- A total of £500m (before costs) of acquisitions by the end of H123 at a net initial yield of 4.5%. In line with previous deployment, we assume c £200m of this will complete before end-September 2022 (including the already announced £82.3m Tesco/Asda acquisitions) and c £300m before end-December 2022.
- In addition, we assume c £300m (before costs) of acquisitions during early FY24 as SUPR reinvests c £183m of cash distributions, on a geared basis, from its highly successful JV with a beneficial interest in the Sainsbury's Reversion Portfolio, discussed in detail in our March outlook note.

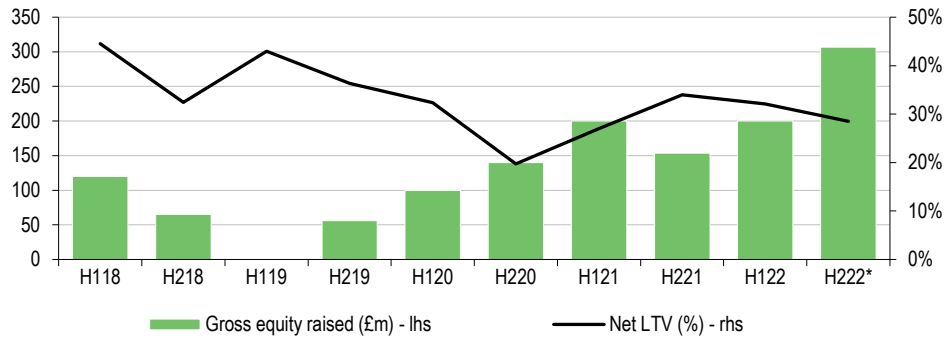
Our other key assumptions include:

- In line with the rent review data presented by SUPR for H222, we forecast a c £1.0m rent uplift for the period. This represents a blended average 4.4% pa uplift on reviews completed in the period or an annualised increase of c 2.7% on the end-H122 portfolio passing rent. For FY23, we assume a 3.5% uplift in rents and 3.0% thereafter, increased from previously to better reflect reported inflation. This may well prove to be a conservative assumption, as it allows for caps on index-linked rents and no material increase on the c 12% of rents that are reviewed on an open market basis.
- JV recurring (non-cash) earnings until the middle of 2023 and no further valuation uplifts, although this may prove conservative, particularly in respect of ongoing negotiations with respect to the five stores where Sainsbury's has not exercised its purchase option.
- Investment adviser fees in line with the agreed schedule, at a marginal rate of 0.65% pa on net assets of more than £1,000m. We expect a further step-up in other administrative expenses to reflect the increased size of the business but then to increase broadly in line with inflation.
- Finance expense follows the increase in borrowing, with a pick-up in the average cost of borrowing as discussed above.
- For the wholly owned portfolio, yield compression is not assumed in our forecasts but would have a positive impact on our forecast returns. We estimate that a 0.1% yield tightening would lift our FY23 NAV per share by c 3.7p and our forecast FY23 total return to c 10.2%. A 0.1% widening of yields, perhaps driven by a significant increase in the yield on risk-free government bonds, would have a similar negative impact.

Targeting a net LTV of 30–40%

With recurring earnings distributed in dividends, the strong growth in SUPR's portfolio since IPO has been financed by a blend of new equity and debt, while targeting a medium-term LTV of 30–40%. We expect it to operate towards the top of this range, reflecting the increased scale and diversification of the portfolio and the robust financial position of tenants. It can also anticipate with some confidence significant cash proceeds from the JV in mid-2023.

Exhibit 4: Equity raising in balance with LTV target



Source: Supermarket Income REIT data, Edison Investment Research forecasts. Note: *H222 net LTV is Edison forecast.

Following the refinancing announced on 4 July 2022, SUPR has total committed debt facilities of £862m, up from £705m (c £794m including accordion options[12]) previously. We estimate drawn debt of a little under £400m at end-FY22, including short-term debt repayments from the proceeds of the April equity raise, ahead of deployment, and a net LTV of around 18%. By end-FY23 we expect most of the increased debt facilities will have been drawn to fund acquisitions and that the LTV will increase towards 40% on a fully deployed basis.[13] We forecast that additional debt of c £125m will be required in FY24 as the cash returns from the JV are reinvested on a geared basis.

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.

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 NAV plus dividends paid) has steadily increased, reaching 12.1% in FY21 and 7.8% in the first half of FY22. The cumulative total return since IPO to end-H122 is 41.6% (dividends paid added back but not reinvested) or a compound 8.1% pa. Returns would be higher if adjusted for the c 6.0p per share of acquisition costs incurred in building the portfolio since IPO. Dividends have been increased each year and represent two-thirds of the total return since IPO. Although we expect DPS growth to slow while the rise in borrowing costs is absorbed, our revised forecasts continue to indicate returns in line with the company's target range. By FY25 we expect returns at the top-end of the target range as scale builds further and assuming no acquisition costs in the year nor any further compression of valuation yields.

[12] Accordion options to increase the size of the commitment with the approval of the lender. Post refinancing there are no accordion options.

[13] In our forecasts, FY23 net LTV remains around 30% due to the receipt of JV proceeds around the FY23 year-end, but increases as the these are deployed.

Exhibit 5: NAV* total return history and forecasts

	FY18**	FY19	FY20	FY21	H122	IPO to end-H122	FY22e	FY23e	FY24e	FY25e	FY22–FY25e
Opening NAV per share (p)	97	96	97	101	108	97	108	115	117	120	108
Closing NAV per share (p)	96	97	101	108	113	113	115	117	120	126	126
DPS paid (p)	4.1	5.6	5.8	5.9	3.0	24.3	5.9	6.0	6.1	6.2	24.2
NAV total return	**3.4%**	**6.6%**	**10.7%**	**12.1%**	**7.8%**	**41.6%**	**12.7%**	**6.7%**	**8.0%**	**10.2%**	**40.1%**
Annual average compound return						8.1%					8.8%

Source: Supermarket Income REIT data, Edison Investment Research. Note: *NAV defined as EPRA NTA. **Adjusted for IPO issuance costs.

Based on the company's FY22 target aggregate DPS of 5.94p, the prospective yield is 5.0%. The share price premium to end-H122 EPRA NTA per share of 113p is 5%.

In Exhibit 6 we show a comparison of SUPR with a group of other property companies that focus on income returns derived from long leases. SUPR's share price has outperformed peers, the UK commercial property sector and the broad UK equity market over the past one and three years. Compared with the group average, SUPR has a similar yield and higher P/NAV ratio (5% premium versus the peer average 5% discount). Its predominantly RPI-linked rent growth provides investors with considerable visibility of income with protection against inflation, while the strength of its tenant covenant has been successfully tested and even enhanced during the pandemic. We expect it to prove resilient in the inflationary conditions, supporting income and capital values.

Exhibit 6: Valuation and performance summary of long-lease REITS

	Price (p)	Market cap (£m)	P/NAV* (x)	Trailing yield** (%)	Share price performance			
					One month	Three months	One year	Three years
Assura	65	1,922	1.07	4.5	-9%	-5%	-15%	15%
Impact Healthcare	117	451	1.02	5.5	-6%	-5%	2%	14%
Civitas Social Housing	74	452	0.67	7.5	-11%	-16%	-36%	-28%
LXi REIT	139	1,263	0.97	4.3	-5%	-8%	-2%	31%
Primary Health Properties	136	1,810	1.16	4.7	-7%	-10%	-15%	17%
Secure Income	461	1,494	1.09	3.4	-3%	1%	20%	23%
Target Healthcare	107	662	0.96	6.3	-10%	-7%	-9%	-7%
Triple Point Social Housing	85	344	0.77	6.2	-6%	-10%	-19%	-19%
Tritax Big Box	181	3,390	0.81	3.7	-10%	-27%	-11%	19%
Average			**0.95**	**5.1**	**-7%**	**-10%**	**-9%**	**7%**
Supermarket Income	**119**	**1,469**	**1.05**	**5.0**	**-10%**	**-6%**	**0%**	**14%**
UK property sector index	1,576				-12%	-19%	-13%	-13%
UK equity market index	3,864				-8%	-8%	-5%	-8%

Source: Company data, Refinitiv. Note: Priced at 5 July 2022. *Based on last reported EPRA NAV/NTA. **Based on last 12 months DPS declared.

Exhibit 7: Financial summary

Year ended 30 June	2018	2019	2020	2021	2022e	2023e	2024e	2025e
£m								
INCOME STATEMENT								
Rent receivable	8.5	16.9	25.5	46.2	68.9	98.0	120.7	128.2
Rent smoothing adjustment	0.5	0.4	0.9	2.0	2.2	2.0	2.0	2.0
Net service charge expense	0.0	0.0	0.0	(0.2)	(0.1)	0.0	0.0	0.0
Total rental income	8.9	17.2	26.4	47.9	71.0	100.0	122.7	130.2
Administrative & other expenses	(2.1)	(3.1)	(5.2)	(9.3)	(13.3)	(15.5)	(16.0)	(16.7)
Operating profit before investment property change in fair value	6.8	14.1	21.2	38.7	57.8	84.6	106.7	113.5
Change in fair value of investment properties	(4.1)	0.6	13.1	36.3	23.2	27.9	46.4	73.4
Share of profit of JV	0.0	0.0	0.5	15.5	43.1	9.2	0.0	0.0
Negative goodwill	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0
Operating profit/(loss)	2.8	14.8	37.7	90.5	124.1	121.7	153.0	186.9
Net finance expense	(1.9)	(4.2)	(4.9)	(8.5)	(11.5)	(25.3)	(36.2)	(35.3)
Profit/(loss) before tax	0.8	10.6	32.8	82.0	112.5	96.5	116.8	151.6
Tax	(0.2)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Profit/(loss) for the period	0.6	10.6	32.8	82.0	112.5	96.5	116.8	151.6
Adjust for:								
Changes in fair value of investment property	4.1	(0.6)	(13.1)	(36.3)	(23.2)	(27.9)	(46.4)	(73.4)
Share of changes in fair value of JV investment property				(5.6)	(31.0)	0.0	0.0	0.0
Negative goodwill	0.0	0.0	(3.0)	(3.3)	0.0	0.0	0.0	0.0
EPRA earnings	4.7	9.9	16.8	36.8	58.3	68.5	70.5	78.2
EPRA cost ratio inc. direct vacancy costs	23.5%	17.9%	19.2%	16.8%	15.6%	14.0%	13.1%	12.8%
Closing number of shares (m)	184.4	239.8	473.6	810.7	1,239.9	1,239.9	1,239.9	1,239.9
Average number of shares in issue (m)	124.2	198.1	334.2	652.8	976.7	1,239.9	1,239.9	1,239.9
IFRS EPS (p)	0.5	5.3	9.8	12.6	11.5	7.8	9.4	12.2
EPRA EPS (p)	3.8	5.0	5.0	5.6	6.0	5.5	5.7	6.3
DPS declared (p)	5.50	5.63	5.80	5.86	5.94	6.00	6.10	6.28
EPRA earnings/dividends paid	103%	92%	84%	104%	110%	92%	94%	101%
EPRA NTA total return		6.6%	10.7%	12.1%	12.7%	6.7%	8.0%	10.2%
BALANCE SHEET								
Investment property	264.9	368.2	539.4	1,148.4	1,563.0	2,126.9	2,495.7	2,571.2
Associate	0.0	0.0	56.1	130.3	173.5	(0.0)	(0.0)	(0.0)
Other non-current assets	0.0	0.0	56.1	131.3	178.2	4.8	4.8	4.8
Total non-current assets	264.9	368.2	595.5	1,279.7	1,741.3	2,131.7	2,500.5	2,575.9
Trade & other receivables	1.0	3.5	1.7	3.1	3.85	5.5	6.4	6.6
Cash & equivalents	2.2	9.9	20.4	19.6	102.11	187.7	(7.3)	(7.6)
Other current assets	0.0	0.0	(0.0)	0.2	0.10	0.1	0.1	0.1
Total current assets	3.3	13.4	22.1	23.0	106.05	193.2	(0.8)	(0.9)
Deferred rental income	(1.7)	(3.5)	(5.2)	(12.1)	(15.0)	(15.0)	(15.0)	(15.0)
Current tax liabilities	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Trade &other payables	(1.5)	(2.6)	(6.4)	(8.4)	(11.5)	(16.4)	(19.1)	(19.7)
Total current liabilities	(3.4)	(6.4)	(11.6)	(20.4)	(26.6)	(31.5)	(34.2)	(34.7)
Bank borrowings	(88.1)	(143.7)	(126.8)	(409.7)	(389.5)	(840.0)	(970.5)	(971.0)
Interest rate derivatives	0.0	(1.1)	(2.0)	(1.2)	0.0	0.0	0.0	0.0
Total non-current liabilities	(88.1)	(144.8)	(128.8)	(410.9)	(389.5)	(840.0)	(970.5)	(971.0)
Net assets	176.7	230.5	477.2	871.3	1,431.3	1,453.5	1,495.0	1,569.4
IFRS NAV per share (p)	96	96	101	107	115	117	121	127
EPRA NTA per share (p)	96	97	101	108	115	117	120	126
CASH FLOW								
Net cash from operations	8.1	13.9	26.9	42.8	58.4	85.8	106.5	111.8
Acquisition & investment in investment property	(268.7)	(91.1)	(157.3)	(570.0)	(386.9)	(534.0)	(320.4)	0.0
Investment in associate	0.0	0.0	(52.6)	(58.7)	0.0	182.7	0.0	0.0
Other investing activity	0.0	0.0	0.0	(0.9)	(2.8)	0.0	0.0	0.0
Net cash from investing activity	(268.7)	(91.1)	(209.9)	(629.5)	(389.7)	(351.3)	(320.4)	0.0
Share issuance (net of costs)	180.9	43.9	234.8	345.6	496.2	0.0	0.0	0.0
Debt drawn/(repaid)	88.8	56.1	(16.2)	284.7	(20.4)	450.0	130.0	0.0
Interest paid and other financing costs	(2.3)	(4.3)	(5.6)	(9.3)	(10.9)	(24.8)	(35.7)	(34.8)
Dividends paid	(4.6)	(10.9)	(19.6)	(34.9)	(51.1)	(74.2)	(75.3)	(77.3)
Net cash from financing activity	262.8	84.8	193.4	586.0	413.8	351.0	19.0	(112.1)
Change in cash	2.2	7.7	10.5	(0.8)	82.5	85.6	(195.0)	(0.3)
Opening cash	0.0	2.2	9.9	20.4	19.6	102.1	187.7	(7.3)
Closing cash	2.2	9.9	20.4	19.6	102.1	187.7	(7.3)	(7.6)
Debt as per balance sheet	(88.1)	(143.7)	(126.8)	(409.7)	(389.5)	(840.0)	(970.5)	(971.0)
Net debt	(85.9)	(133.8)	(106.4)	(390.1)	(287.3)	(652.3)	(977.8)	(978.5)
LTV	32.4%	36.3%	19.7%	34.0%	18.4%	30.7%	39.2%	38.1%

Source: Supermarket Income REIT historical data, Edison Investment Research forecasts

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