EDISON

Supermarket Income REIT

Property acquisitions

Progressing with accretive deployment

Real estate

Supermarket Income REIT (SUPR) has acquired four supermarkets for £76.0m, taking the total capital deployed since its highly successful £300.0m equity raise in late April to £159.0m. Index-linked rents and accretive acquisitions are the drivers of income growth and progressive DPS, and we expect further near-term acquisitions despite increasing debt funding costs. Meanwhile, structural trends in the market and the non-discretionary nature of many grocery products support strong tenant covenants. There are no changes to our forecasts ahead of FY22 results, which we expect in late September.

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	1.15	4.7
06/22e	71.0	58.3	6.0	115	5.94	1.08	4.8
06/23e	100.0	68.5	5.5	117	6.00	1.06	4.8
06/24e	122.7	70.5	5.7	120	6.10	1.03	4.9

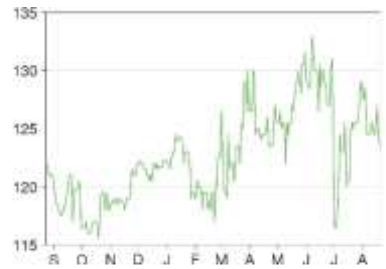
Note: *EPRA EPS is normalised, excluding gains on revaluation and other non-recurring items. **NAV is EPRA net tangible assets.

The four supermarkets comprise of two leased to Tesco, located in Cheltenham and Merseyside, as well as a central Glasgow site anchored by a Sainsbury's supermarket and an M&S foodhall. They were acquired at a blended average net initial yield of 5.1%, partly funded through a first drawdown on an agreed £412.1m unsecured credit facility. This has a margin of 1.5% above SONIA, which is equivalent to an all-in finance cost of 3.4%. The blended yield on all acquisitions since the April equity raise is 5.0%. The Glasgow city centre site comprises a Sainsbury's supermarket with an unexpired lease term of 10 years and an M&S foodhall with an unexpired lease term of four years, both subject to five-yearly, upwards only, open market rent reviews. Adjoining units provide local health and convenience services with occupiers including Boots, Superdrug and Costa Coffee, while SUPR's overall non-grocery assets remain below 10% of the portfolio. The location has a strong, dense population, with limited local competition, and a complementary offering to support footfall and trading despite the supermarket being unsuitable for omnichannel provision. The Tesco supermarkets are in Bishops Cleeve, Cheltenham and Newton-le-Willows, Merseyside. These are smaller locations that benefit from limited competition, although with population sizes too small to support larger, omnichannel stores. Both are being acquired with unexpired lease terms of 12 years subject to annual RPI-linked rental uplifts, with a floor at 0% and capped at 5%, above the portfolio average of c 4%. The attraction of SUPR's investment proposition is based on robust and visible income growth. Since listing in July 2017, SUPR has paid progressive dividends and has generated consistently positive returns in line with its 7–10% pa target. FY22 DPS of 5.94p represents a yield of 4.8%. Our forecasts, including DPS growth, allow for funding costs to increase further from current levels.

22 August 2022

Price	**124p**
Market cap	**£1,537m**
Net debt (£m) as at 31 December 2021	454.0
Net LTV as at 31 December 2021	32.1%
Shares in issue	1,241.8m
Free float	100%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



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.

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Edison profile page

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