Supermarket Income REIT

FY19 results and equity raise

Visible income and growth potential

Real estate

Following FY19 results that showed strong growth driven by the continued steady build-up of the portfolio, contracted RPI-linked rental growth, and improving efficiency, Supermarket Income REIT (SUPR) intends to raise c £50m in a share placing and offer with the proceeds directed at further portfolio acquisitions. FY19 shareholder total return was 8.0%, taking the total to 16.1% in the two years since IPO. The FY20 DPS target has been increased in line with inflation to 5.80p, implying a yield of 5.6%.

RPI uplifts and growing scale driving returns

SUPR added two new assets in FY19, investing £96.7m (before acquisition costs) and has since acquired an eighth asset for £54.4m. All eight properties are let on long leases (a weighted average unexpired lease term of more than 18 years) with upwards-only RPI-linked rent reviews. Rental income increased more than 90% to £17.2m in FY19, the EPRA cost ratio fell to 17.9%, and EPRA earnings more than doubled to £9.9m. EPRA EPS increased 32% to 5.0p. With the net initial yield steady at 4.9%, rental growth fed through to portfolio valuation gains that more than offset property acquisition costs. EPRA NAV per share increased to 97p.

Focused investment in supermarkets

SUPR intends to raise c £50m by way of a placing and offer for subscription of c 49.0m new shares (the 'initial offer') at 102p as part of a broader placing programme of up to 200m shares. The proceeds will provide additional resources for the further growth of SUPR's diversified portfolio of UK supermarket assets, with long leases and upwards-only RPI-linked rents, let to quality tenant covenants. The company has identified three 'target assets' with an aggregate value of c £140m, as a well as a pipeline of a further four assets on which preliminary due diligence has begun. The investment adviser brings a high level of experience and knowledge of the sector and was joined in March 2019, as a senior adviser, by Justin King, the former CEO of Sainsbury's. Since IPO in rapidly deploying available capital while pursuing a highly selective acquisition strategy, predominantly targeting omnichannel stores (combining in-store and online fulfilment).

Valuation: Attractive, growing yield potential

Contracted RPI-linked rental uplifts support dividend growth and the further increase in DPS targeted by SUPR for FY20 (5.80p per share) represents a prospective dividend yield of 5.6%. A comparison with a narrower group of long income-focused REITs shows that SUPR offers an above-average yield with a similar P/NAV.

Historical

Year end	Revenue (£m)	EPRA EPS* (p)	EPRA NAV/ share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/18	8.9	3.8	96	5.50	1.09	5.3
06/19	17.2	5.0	97	5.63	1.08	5.4

Source: Supermarket Income REIT data. Note: *EPRA EPS is normalised, excluding gains on revaluation. Consensus forecasts are unavailable due to the announced placing and open offer.

13 September 2019

Price	**104.5p**
Market cap	**£250m**
Net debt (£m) at 30 June 2019	133.8
Net LTV at 30 June 2019	36.3%
Shares in issue	239.8m
Free float	98.6%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(0.5)	0.5	3.0
Rel (local)	(2.6)	0.2	3.1
52-week high/low		107.5p	95.5p

Business description

Supermarket Income REIT, listed on the specialist funds segment of the London Stock Exchange, invests in 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, with a 7–10% pa total shareholder return target over the medium term.

Next events

AGM	November 2019

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Visible contracted rental growth

SUPR is listed on the specialist funds segment of the London Stock Exchange and 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. The long, indexed-linked leases that SUPR targets provide a high degree of visibility to contractual income streams and strong income returns for supermarket property have underpinned a long record of positive total returns, making this a relatively low-risk segment of the UK commercial property market and a bright spot in an otherwise challenged retail property sector. Given the financial strength of the leading supermarket operators, their improving financial performance and their financing strategies, they have neither the need of company voluntary arrangements (CVAs) nor, in our view, the incentive to seek to use them as a bargaining tool for lower rents. SUPR's shareholder total return in the year to 30 June 2019 was 8.0% compared with a negative 6.0% for the wider UK REIT sector, taking total shareholder return over the two years since IPO to 16.1% (UK REIT sector: -1.0%).

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 £4.0bn of supermarket transactions over the past decade. In March 2019, it was joined by senior adviser Justin King, the former CEO of Sainsbury's, who brings a wealth of grocery sector experience and a deep understanding of grocery property strategy.

Strong FY19 reflects portfolio building

Results for the year ended 30 June 2019 (FY19) show strong growth driven by the continued, steady build-up of the portfolio. SUPR added two new omnichannel supermarket assets during FY19, investing £96.7m (before acquisition costs) and has since acquired an eighth asset for £54.4m (before acquisition costs). The acquired assets are accretive to portfolio yield and unexpired lease term. At the end of FY19, the portfolio was externally valued at £368.2m, reflecting a yield of 4.9% and annualised passing rent of £19.2m. All the properties are let on long leases with a weighted average unexpired lease term (WAULT) of 18 years and upwards-only RPI-linked rent reviews. The acquisition of Sainsbury's Preston in August at a net initial yield of 5.1% increases the annualised rent roll to £22.2m.

Exhibit 1: Portfolio summary at year end

	Jun-19	Jun-18
Number of assets*	7	5
Valuation	£368.2m	£264.9m
Valuation yield	4.9%	4.9%
WAULT	18 years	19 years
Annualised passing rent	£19.2m	£13.7m
Rent reviews	All RPI linked	All RPI linked
Occupancy	100%	100%

Source: Supermarket Income REIT data. Note: *Excludes Sainsbury's Preston, acquired in August 2019.

A summary of the key FY19 financials and a comparison with FY18 is shown in Exhibit 2. Rental income grew strongly, reflecting a full-year contribution from assets acquired in FY18 and a part-period contribution from the FY19 acquisitions, as well as RPI-linked rental growth. Profitability additionally benefited from economies of scale.

Exhibit 2: Summary of FY19 results

£m unless stated otherwise	2019	2018	2019/2018
Total rental income	17.2	8.9	92.7%
Administrative & other expenses	(3.1)	(2.1)	47.3%
EPRA cost ratio	17.9%	23.4%	
Operating profit before investment property change in fair value	14.1	6.8	106.6%
Net finance expense	(4.2)	(1.9)	118.0%
EPRA PBT	**10.0**	**4.9**	**102.2%**
Tax	(0.0)	(0.2)	
EPRA earnings	**9.9**	**4.7**	**111.6%**
Change in fair value of investment properties	0.6	(4.1)	
IFRS earnings	**10.6**	**0.6**	
Basic & diluted IFRS EPS (p)	5.3	0.5	
EPRA EPS (p)	**5.0**	**3.8**	**31.6%**
DPS (p)	**5.63**	**5.50**	**2.4%**
EPRA earnings/total dividends paid	0.92	1.03	
Investment properties	368.2	264.9	
Net assets	230.5	176.7	
EPRA NAV per share (p)	97	96	0.7%
Net debt	(133.8)	(85.9)	
LTV	36.3%	32.4%	

Source: Supermarket Income REIT

The key features of the FY19 financial performance are:

- Total rental income grew 92.7% to £17.2m, driven significantly by acquisitions. Inflation-linked rent reviews concluded in the period added an average 3.2% to rents (compared with the 13 months to end-FY18: 3.6%). The current year should see an increased revenue contribution from recent acquisitions.
- Administrative expenses increased with the growth of the asset base, but significantly trailed rental income growth. The EPRA cost ratio was 17.9% compared with 23.4% in FY18, or 20.5% adjusted for £260k of IPO-related expenses in that period. Expense growth was mainly driven by investment manager adviser fees levied at a competitive 0.95% of average net assets. The expense ratio is relatively low in the REIT sector (SUPR estimates the average for a peer group of UK REITs at 20.2%).
- Net finance expenses increased with borrowings, utilised to part-fund portfolio additions. Gross drawn debt increased to £152.1m (end-FY18: £100.0m) and, adjusting for the cash balance, net debt was £133.8m (end-FY18: £85.9m). The end-FY19 loan to value ratio (LTV) was 36.3%. Since the end of the period, SUPR has agreed and drawn a new £47.6m facility, taking gross debt to £199.7m. The new facility is at an attractive fixed rate of 1.9%, taking the average cost of debt to 2.3%.
- EPRA earnings more than doubled to £9.9m and EPRA EPS, taking account of the increased number of shares in issue, was 32.7% higher at 5.0p.
- The four quarterly dividends declared for the year amount to 5.63p per share, a 3.1% increase on FY18, in line with UK RPI inflation. The company is targeting a 2.9% increase in quarterly DPS for the year from October 2019, in line with RPI, and expects to declare aggregate DPS of 5.8p for FY20 as a whole, barring unforeseen circumstances. In cash terms, FY19 EPRA earnings covered dividends paid by 92%.
- The value of the portfolio increased by £103.3m to £368.2m. In addition to the property acquisitions, the increase included like-for-like revaluation gains of £6.6m, or 1.3%, but this was substantially offset by £5.6m of acquisition costs written off in respect of the two acquisitions completed in the year. The blended portfolio net initial yield (NIY) was stable at 4.9%. IFRS earnings and NAV benefited by a net £0.6m, as shown in Exhibit 3.

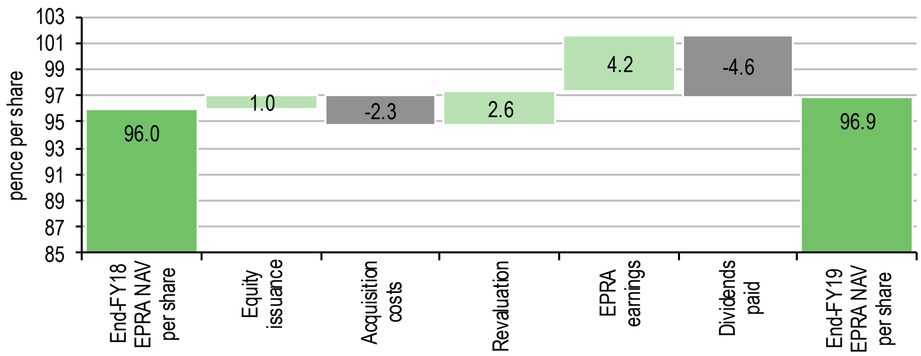
Exhibit 3: Gross and net revaluation gains

£m	2019	2018
Gross revaluation	6.6	10.4
Acquisition costs written off	(5.6)	(14.1)
Net revaluation	**1.0**	**(3.8)**
Rent smoothing adjustment	(0.4)	(0.3)
Fair value movement recognised in P&L	**0.6**	**(4.1)**
Like-for-like revaluation movement	1.3%	4.1%

Source: Supermarket Income REIT

- With EPRA earnings broadly matching dividends paid and gross revaluation gains substantially offset by acquisition costs, EPRA NAV per share was up modestly compared with end-FY18 at 97p per share. Including DPS paid, the EPRA NAV total return during the year was 6.6%, or 9.0% on an underlying basis, excluding the impact of acquisition costs.

Exhibit 4: EPRA NAV bridge*



Source: Supermarket income REIT. *Note EPRA EPS and DPS are based on period-end shares in issue and differ from the income statement which is based on the average shares in issue during the year.

Debt funding increased and broadened

At the end of FY19, SUPR had debt facilities of £151.2m of which £7.2m remained undrawn. Adjusting for the year-end cash balance of £9.9m, the net drawn debt was £135.0m and the net LTV was 36.3%.

Its banking relationships have continued to broaden, with new facilities added at competitive borrowing rates that appear to reflect the underlying strength of the tenant covenants. During FY19, a £52.1m facility was agreed with Bayerische Landesbank at 1.25% above three-month Libor and hedged at an all-in fixed cost of 2.5%. Since the period end a new £47.6m facility with DekaBank has been added at a fixed rate of 1.9%. The proceeds have been utilised towards the acquisition of Sainsbury's, Preston. The facility also includes a £40m uncommitted accordion option for the term of the facility. The three facilities, including the £100m HSBC facility in place at the beginning of FY19, are all ring fenced with significant headroom and flexibility on their financial covenants. Including the DekaBank facility, the weighted average cost of the drawn debt is 2.3% with a weighted average maturity of c four years. The vast majority of the debt is fixed rate or hedged, and over time we would expect SUPR to seek opportunities to extend the average maturity to more closely reflect the long average WAULT.

Exhibit 5: Debt portfolio summary

	Current interest rate	Gross debt (£m)	LTV covenant*	DSCR covenant**	Hedging	Maturity
HSBC	2.4%	100.0	60%	200%	63.5% capped - 1.75% strike	Aug-22
Bayerische Landesbank	2.5%	52.1	60%	200%	Fixed	Jul-23
DekaBank	1.9%	47.6	60%	200%	Fixed	Aug-24
Total/weighted average	2.3%	199.7	60%	200%		c 4 years

Source: Supermarket Income REIT. Note: *Loan to value covenant. **Debt service coverage ratio covenant.

Including the post-period end acquisition of Sainsbury's Preston and drawing the £47.6m DekaBank debt facility, the end-FY19 LTV on a pro forma basis was c 45.0%. The Company will target a LTV ratio of 30-40% in the medium term once the portfolio growth phase is complete. The SUPR board consider this conservative given the low risk nature of the portfolio

Continued growth opportunities

The investment adviser estimates that from a pool of c £20bn of supermarket properties that are not owned directly by operators, c £10bn meet SUPR's strict selection criteria aimed at assets that can deliver sustainable value in a shifting retail environment. SUPR believes a portfolio value of c £1bn is a reasonable objective over the long term, or a c 10% share of its target asset pool.

£50m placing and offer at 102p per share

In its outlook statement accompanying the FY19 results SUPR said that it continues to see numerous further growth opportunities that meet its investment objectives while potentially adding further geographical, covenant and income diversification to the portfolio. It has subsequently announced its intention to raise c £50m by way of a placing and offer for subscription of c 49.0m new shares (the 'initial offer') as part of a broader placing programme of up to 200m shares. The initial issue is at 102p per share which represents a discount of 5.1% to the closing price immediately prior to the announcement and a premium to the end-FY19 NAV per share of 97p. The company has identified three assets (the 'target assets') with an aggregate value of c £140m which meet its investment criteria. The target assets all benefit from long RPI-linked leases, with a weighted average lease term of 15 years. They are all occupied by Sainsbury's, providing strong rental security, and benefit from low site cover, and geographical locations which would support multiple sales channels including online, and click and collect delivery, in addition to in-store customers.

The investment adviser has entered into exclusivity arrangements with the owners of one of the target assets and is in advanced discussions with the owners of the other two. In addition to the target assets, the company has identified a strong investment pipeline of a further four assets and has begun preliminary due diligence on those assets.

Both the initial issue and the placing programme are subject to shareholder approval at an EGM expected to be held on 1 October 2019 and a prospectus is available on the company's website (www.supermarketincomereit.com). If approved by shareholders the placing & offer is expected to close on 2 October 2019.

SUPR believes that the £50m target issue size for the initial issue when combined with debt resources should provide sufficient resources to acquire two of the target assets and that the larger pipeline will help to ensure negotiating flexibility in determining pricing with vendors. If less than the £50m target is raised, the company expects to be selective, determining which assets to pursue from the broader pipeline. If investor demand exceeds £50m, SUPR may increase the size of the initial issue up to the maximum of 200 million new ordinary shares provided for in the placing programme.

Funds rapidly deployed to grow portfolio

In growing its portfolio since IPO, SUPR has been able to rapidly deploy capital and mitigate cash drag. Equity proceeds have been invested within four weeks on average and have been fully leveraged within six weeks.

During FY19 and already in FY20 (with the completed £54.4m acquisition of Sainsbury's, Preston) the SUPR portfolio continued to grow and diversify by geography and tenant (see Exhibit 6).

The eight omnichannel supermarket properties that comprise the current portfolio operate both as physical stores and online fulfilment centres. Excluding Sainsbury's, Preston, the external portfolio valuation of £368.2m at end-FY19 compares with the combined purchase price (before acquisition costs) of £351.4m. The £16.8m uplift in value is equivalent to 4.8% of the aggregate purchase price and reflects the improving covenant strength of the operators as tenants, favourable supply and demand characteristics in the investment market, and the investment manager's ability to source off-market acquisitions.

Steady and highly selective portfolio growth

The key to income growth visibility is the selection of properties with RPI-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.
- **Top trading stores**. SUPR targets top-performing stores with a strong trading record, identified using the knowledge and experience of the investment adviser.
- **Large flexible sites**. SUPR looks for assets with a low site cover, significant non-sales space which provides opportunities to benefit from future **asset management opportunities,** and which may offer good potential for alternative use over the longer term. In the near term, SUPR has put its plans for quick-service restaurants on hold as a result of lower rents being offered by operators but continues with its investment in rooftop solar power installations. The solar investment of more than £2.5m will help the tenants achieve their energy targets and SUPR expects the yield to deliver accretive returns.

Exhibit 6: Overview of current portfolio – including post FY19 acquisition

Tenant	Tesco	Tesco	Sainsbury's	Tesco	Tesco	Morrisons	Tesco	Sainsbury's
Location	Thetford, Norwich	Lime Trees, Bristol	Ashford, Kent	Cumbernauld, North Lanark.	Doncaster Rd, Scunthorpe	Hillsborough, Sheffield	Mansfield, Notts	Preston, Lancashire
Acquisition date	August 2017	August 2017	August 2017	December 2017	May 2018	July 2018	April 2019	August 2019
Purchase price	£43.2m	£28.5m	£79.8m	£50.0m	£53.0m	£51.7m	£45.0m	£54.4m
Valuation at 30 June 2018	£43.4m	£29.6m	£84.5m	£55.1m	£55.7m	£53.0m	£46.9m	N/A
Passing rent	£2.64m	£1.58m	£3.93m	£3.03m	£2.98m	£2.54m	£2.51m	£2.96m
Gross lettable area (sq. ft.)	78,000	55,000	125,000	117,000	98,000	113,000	90,000	106,000
Net sales area (sq. ft.)	48,000	31,000	72,000	70,000	65,000	58,000	64,000	78,000
Rent review basis	Annual RPI	Annual RPI	Annual RPI	Annual RPI	Annual RPI	5 yearly RPI	Annual RPI	Annual RPI
Lease expiry	December 2029	March 2031	September 2038	August 2040	August 2040	October 2039	March 2039	February 2042
Tenure	Virtual freehold*	Virtual freehold*	Freehold	Virtual freehold*	Virtual freehold*	Virtual freehold*	Virtual freehold*	Freehold

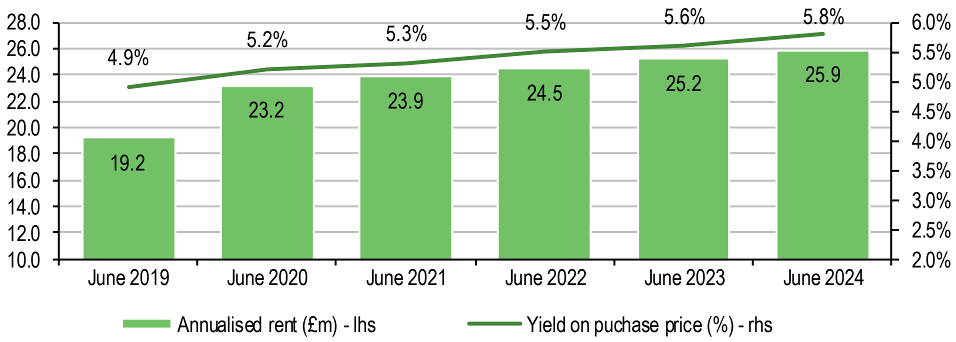
Source: Supermarket Income REIT. Note: *Virtual freehold is lease greater than 900 years.

Contractual RPI rent increases provide visibility

To better illustrate the potential impact of contractual RPI rent uplifts on rental income growth, SUPR has provided the data in Exhibit 5, which assumes an annual RPI increase of 3.2% applied to the end-FY19 portfolio annualised rents with allowance made for the completed acquisition of Sainsbury's, Preston in the June 2020 total. Obviously the rate of RPI may differ from the 3.2% assumed, but we believe this to be a reasonable assumption by which to illustrate the impact and is consistent with recent experience. In practice, there is a ceiling to the earnings benefit represented by the rent review caps on uplifts, of up to 5%.

With the illustrated growth in rents, the yield on property purchase values also increases. However, if the external property valuation were to continue to reflect an unchanged yield these higher illustrated rents would also indicate higher property values, with a positive impact on NAV. Other factors may affect property valuations and NAV but we estimate that applying an unchanged 4.9% valuation yield to the illustrative FY24 rental income shown in Exhibit 6 would add c £70m to the portfolio valuation, or c 30p per share based on the end-FY19 number of shares in issue.

Exhibit 7: Illustrativeimpact of contracted RPI uplifts on rental growth



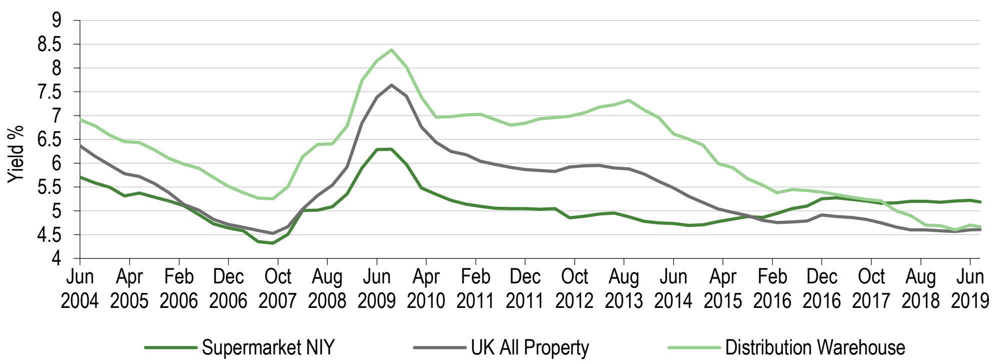
Source: Supermarket Income REIT. Note: Assumed annual RPI uplift of 3.2%. Annualised rent movement between 2019 and 2020 includes acquisition of Sainsbury's, Preston. Company illustration only and RPI may differ from this assumption.

Improving operator strength is a positive

The investment adviser believes that there is currently an attractive opportunity for investors to gain exposure to supermarket property. This view is based on the observation that in contrast to many asset prices, including those in the wider real estate sector, supermarket property yields have remained relatively stable over the last few years, while supermarket operators appear to be entering a period of operational and financial recovery, which should improve their covenant strength as tenants. The investment adviser points to the ongoing decoupling of supermarket property prices from supermarket operator corporate bonds which, while a different asset class share similar covenant risk but a lower return profile.

Supermarket property has historically been priced at investment yields below the UK all-property sector and reached a low of 4.3% in 2007. However, in around 2013 the market dynamics changed and supermarket property experienced a negative yield shift against the broader property trend. Since 2015, supermarket yields have been above the all-property sector average. At the same time, the distribution warehouse subsector has witnessed a significant compression in yields.

Exhibit 8: Supermarket property net initial yields

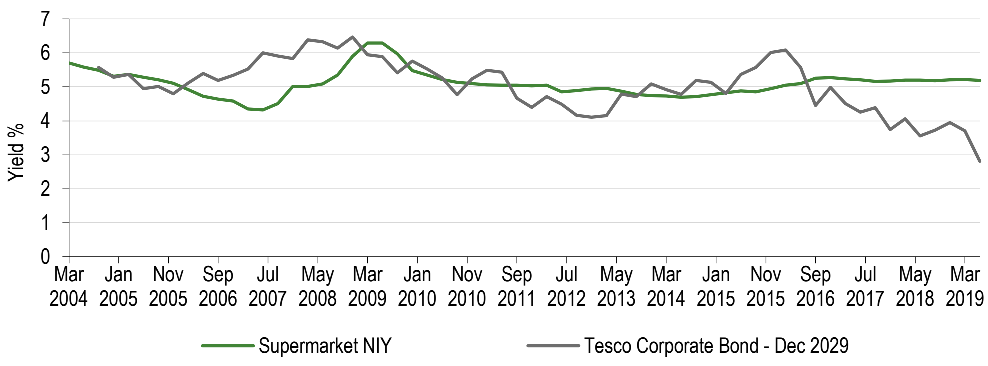


Source: Supermarket Income REIT, MSCI

The period of yield widening for supermarket property corresponds to a period of intense competition among the supermarket operators, against a background of continuing growth in online retail and its transformational impact on traditional retail distribution. However, unlike some of the pressures being felt elsewhere in the retail sector, UK consumer spending on grocery products has grown each year since 1999 and is forecast by IGD Retail Analysis to grow by a further 12.5% over the next five years, from £194bn in 2019 to £218bn in 2024. Although the new discounters, led by Aldi and Lidl, have grown strongly and taken market share, the share gains have mainly been at the expense of the existing discounters. Tesco, Asda, Sainsbury's and Morrisons (the 'big four') retain a combined market share of c 68%, with multi-billion-pound revenues and established brands. The investment adviser believes their ability to protect market share is in part due to the underlying nature of their store portfolios, which also underpins their online strategies. As incumbents, they tend to have the largest sites in some of the best locations, around which they have built a network of omnichannel stores, combining traditional supermarkets (still the dominant channel by far, and growing) with online (with a c 6% share but the fastest-growing channel). As it targets a sustainable and growing income stream, SUPR only invests in omnichannel stores, which the investment adviser estimates account for 74% of all online grocery fulfilment.

Although competition among operators remains high, the grocery sector appears to be entering a period of increased stability. In June 2019, Moody's Investors Service upgraded Tesco (two-thirds of SUPR's passing rent) to investment grade following a similar move by Fitch in late 2018. The improving strength of tenant covenants has not been mirrored in supermarket investment yields, as the following chart demonstrates.

Exhibit 9: Supermarket yields decoupling from operator corporate debt



Source: Supermarket Income REIT, MSCI IPD, Thomson Reuters

Valuation

The 7–10% 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. If the relationship between the share price and the NAV per share is stable, EPRA NAV total return and shareholder total return (share price change plus dividends) will be the same. In fact, since IPO SUPR has seen an increase in P/NAV, to a current c 1.1x such that shareholder total return has exceeded NAV total return. Shareholder return was 8.0% in the year to end-FY19, following 8.1% in the 13 months to end-FY18. The increase in P/NAV partly reflects investor appetite for companies that offer secure, long duration, visible income growth, but we also believe the operational progress and growth that SUPR has delivered. At the same time, reported NAV total return has been negatively affected by property acquisition costs that must inevitably be incurred in building the portfolio. Excluding these, the underlying NAV total return was much stronger and in line with SUPR's targets (Exhibit 10).

Exhibit 10: Shareholder return and NAV return

	FY18	FY19
Opening EPRA NAV per share (p)*	96.9	95.9
Closing EPRA NAV per share (p)	95.9	96.6
Dividends paid (p)	4.1	5.6
EPRA NAV total return	**3.2%**	**6.6%**
Adjust for property acquisition costs per share (p)	7.7	2.3
Underlying NAV total return	**11.1%**	**9.0%**

Source: Supermarket Income REIT data, Edison Investment Research. Note: *Opening NAV per share post-IPO costs.

SUPR is one of a group of companies in the broad property sector that focuses on income returns derived from long leases. As can be seen in Exhibit 11, this group of companies has outperformed the broader property sector as well as the FTSE All-Share Index over the past 12 months, which we attribute to the continuing search for yield by investors and a recognition that within the property sector, income returns have historically been a less volatile component of overall returns than capital returns. SUPR's average unexpired lease term of 18 years is above the average for this group and its RPI-linked rent growth provides investors with considerable visibility of income with protection against inflation. For comparison purposes, Exhibit 11 is calculated using last reported EPRA NAV per share and trailing 12-month DPS declared. On this basis, SUPR has an above average yield while its P/NAV is slightly below the average.

Exhibit 11: 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	70	1,677	1.31	3.9	8%	9%	29%	-1%
Impact Healthcare	112	321	1.07	5.4	1%	5%	9%	-3%
LXI	130	679	1.14	4.3	0%	4%	18%	-1%
Primary Health Properties	136	1,548	1.26	4.1	5%	0%	20%	-2%
Secure Income	431	1,391	1.02	3.7	3%	6%	14%	-2%
Target Healthcare	119	457	1.10	5.5	6%	2%	6%	0%
Tritax Big Box	141	2,407	0.94	4.8	-6%	-5%	-5%	-13%
Average			**1.12**	**4.5**	**3%**	**3%**	**13%**	**-3%**
Supermarket Income	**107**	**255**	**1.10**	**5.3**	**2%**	**3%**	**4%**	**0%**
UK property index	1,645			4.2	3%	-1%	-7%	-8%
FTSE All-Share Index	3,984			4.8	-1%	1%	-4%	-5%

Source: Historical company data. Note: Prices as at 9 September 2019. *Based on last published EPRA NAV. **Based on trailing 12-month DPS declared.

Exhibit 12: Financial summary

Year ended 30 June (£000's)	2018	2019		H118	H218	H119	H219
INCOME STATEMENT							
Rent receivable	8,614	16,865		3,020	5,594	8,106	8,759
Rent smoothing adjustment	328	366		131	197	187	179
Total rental income	8,942	17,231		3,151	5,791	8,293	8,938
Administrative & other expenses	(2,097)	(3,088)		(965)	(1,132)	(1,517)	(1,571)
Operating profit before investment property change in fair value	6,845	14,143		2,186	4,659	6,776	7,367
Change in fair value of investment properties	(4,081)	647		(4,859)	778	792	(145)
Operating profit/(loss)	2,764	14,790		(2,673)	5,437	7,568	7,222
Net finance expense	(1,917)	(4,180)		(649)	(1,268)	(2,057)	(2,123)
Profit/(loss) before tax	847	10,610		(3,322)	4,169	5,511	5,099
Tax	(227)	(18)		(231)	4	0	(18)
Profit/(loss) for the period	620	10,592		(3,553)	4,173	5,511	5,081
Adjust for:							
Changes in fair value of investment property	4,081	(647)		4,859	(778)	(792)	145
EPRA earnings	4,701	9,945		1,306	3,395	4,719	5,226
Closing number of shares (m)	184.4	239.8		120.0	184.4	184.4	239.8
Average number of shares in issue (m)	124.2	198.1		105.5	142.9	184.4	211.8
IFRS EPS (p)	0.5	5.3		(3.4)	2.9	3.0	2.4
EPRA EPS (p)	3.8	5.0		1.2	2.4	2.6	2.5
DPS declared (p)	5.500	5.632		2.750	2.750	2.794	2.838
EPRA earnings/dividends paid	103%	92%		95%	107%	93%	90%
BALANCE SHEET							
Investment property	264,900	368,230		207,900	264,900	320,650	368,230
Interest rate derivatives	37	0		55	37	60	0
Total non-current assets	264,937	368,230		207,955	264,937	320,710	368,230
Trade & other receivables	1,035	3,521		104	1,035	98	3,521
Cash & equivalents	2,239	9,898		1,251	2,239	5,895	9,898
Total current assets	3,274	13,419		1,355	3,274	5,993	13,419
Deferred rental income	(1,666)	(3,543)		(1,188)	(1,666)	(3,221)	(3,543)
Current tax liabilities	(227)	(245)		(231)	(227)	(227)	(245)
Trade &other payables	(1,473)	(2,570)		(1,525)	(1,473)	(2,307)	(2,570)
Total current liabilities	(3,366)	(6,358)		(2,944)	(3,366)	(5,755)	(6,358)
Bank borrowings	(88,099)	(143,708)		(93,822)	(88,099)	(143,710)	(143,708)
Interest rate derivatives	0	(1,113)		0	0	(289)	(1,113)
Total non-current liabilities	(88,099)	(144,821)		(93,822)	(88,099)	(143,999)	(144,821)
Net assets	176,746	230,470		112,544	176,746	176,949	230,470
IFRS NAV per share (p)	96	96		94	96	96	96
EPRA NAV per share (p)	96	97		94	96	96	97
CASH FLOW							
Net cash from operations	8,061	13,914		3,877	4,184	9,633	4,279
Purchase of investment property	(254,540)	(85,450)		(201,540)	(53,000)	(51,700)	(33,750)
Capitalised acquisition costs	(14,113)	(5,617)		(10,660)	(3,453)	(3,071)	(2,546)
Net cash from investing activity	(268,653)	(91,067)		(212,200)	(56,453)	(54,771)	(36,296)
Share issuance (net of costs)	180,883	43,938		117,562	63,321	0	43,938
Debt drawn/(repaid)	88,844	56,050		94,743	(5,899)	56,050	0
Interest paid and other financing costs	(2,334)	(4,325)		(1,356)	(978)	(2,187)	(2,138)
Dividends paid	(4,562)	(10,850)		(1,375)	(3,187)	(5,070)	(5,780)
Net cash from financing activity	262,831	84,813		209,574	53,257	48,793	36,020
Change in cash	2,239	7,660		1,251	988	3,655	4,003
Opening cash	0	2,239		0	1,251	2,239	5,894
Closing cash	2,239	9,899		1,251	2,239	5,894	9,897
Debt as per balance sheet	(88,099)	(143,708)		(93,822)	(88,099)	(143,710)	(143,708)
Net debt	(85,860)	(133,809)		(92,571)	(85,860)	(137,816)	(133,811)
LTV	32.4%	36.3%		44.5%	32.4%	43.0%	36.3%

Source: Supermarket Income REIT

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