

# Supermarket Income REIT

Maintaining returns, with accretive opportunities

Post-H123 review

Real estate

22 May 2023

Supermarket Income REIT (SUPR) reported strong H123 results and expects to meet its full year dividend target on a fully covered basis. Earnings are fully protected from interest rate increases in the near term and we forecast rent growth to offset the eventual roll-off from hedging. The balance sheet is liquid and in this note we discuss the relative merits of debt repayment, reinvestment and share repurchases.

Year end	Rental income (£m)	EPRA earnings (£m)	EPRA EPS* (p)	NAV**/share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/22	72.1	57.4	5.9	115	5.94	0.73	7.1
06/23e	96.9	74.0	6.0	91	6.00	0.92	7.1
06/24e	106.1	75.8	6.1	96	6.00	0.88	7.1
06/25e	108.8	75.6	6.1	100	6.00	0.84	7.1

Note: \*EPRA EPS is normalised, excluding gains on revaluation and other non-recurring items. \*\*NAV is EPRA NTA throughout this report.

## Continuing dividend cover

H123 results reflected strong acquisition-led portfolio growth as the proceeds of the April 2022 equity raise were deployed, ahead of the October spike in financial market volatility. Rental income grew 41% and adjusted earnings 35% but, with acquisitions yet to fully contribute, adjusted EPS was 4% lower. With debt cost fully hedged at 2.9% for an average of c four years, SUPR is confident of meeting its 6.0p DPS target, fully covered. We have assumed that c £350m of the £431m proceeds from the March sale of SUPR's interest in the Sainsbury's Reversion Portfolio is deployed in debt repayment. Although interest rate expectations point to higher debt costs as the hedges roll off, we expect rental growth to compensate, sustaining EPRA EPS and a fully covered, unchanged DPS through FY23 and FY24. Compared with our previous forecasts, FY23e EPRA earnings increase slightly and FY24e by 7%. With the loan to value ratio (LTV) set to fall below 30%, we also assess the potential accretion to earnings and dividend capacity from share repurchases and/or reinvestment as an alternative to debt repayment. The latter would additionally benefit from continuing rent growth.

## Structurally supported sector

SUPR's investment proposition is based primarily on robust and visible income growth from long (c 14 years weighted average lease length), upward-only, mostly inflation-linked leases with strong tenants. The grocery sector benefits from sales inflation, while caps on indexed rents (typically c 4%) enhance affordability. The high-quality omnichannel stores on which SUPR is focused are expected to take further market share over time and it is far from clear that this is reflected in sector valuations. While market-wide property valuation uncertainty remains, we would expect SUPR's visible rental growth to significantly mitigate any further general widening of yields that may occur over the coming months.

## Valuation: Well supported income visibility

The FY23e dividend yield of c 7.0% is well above the 5.4% average since listing in June 2017. Meanwhile, the shares trade at a c 9% discount to H123 NAV compared with an average 4% premium since listing.

**Price** 84p  
**Market cap** £1,043m

Net debt (£m) at 31 December 2022	655.2
Net LTV at 31 December 2022	40.3%
Shares in issue	1,243.4m
Free float	99.5%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(1.3)	(10.6)	(31.6)
Rel (local)	0.5	(7.2)	(32.6)
52-week high/low		133p	84p

## 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

FY23 year end	30 June 2023
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**Supermarket Income REIT is a research client of Edison Investment Research Limited**

## Maintaining returns, with accretive opportunities

As its name suggests, SUPR is focused on providing a secure and attractive level of income, with the potential for capital growth. Since listing in June 2017, it has progressively increased dividends, fully covered by earnings, and this has been the driver (more than 60%) of the 7.7% pa NAV total return, within its medium-term target range of 7–10%, despite the significant capital weakness in H123. We forecast DPS to be maintained and fully covered, representing a 6.5% yield on the H123 NAV per share of 92p, and this should underpin a continuation of near-term returns at a level broadly in line with the target range. Over the longer term, SUPR estimates that the inflation impact on income, despite higher funding costs, has the potential to lift the internal rate of return (IRR) on investment by c 200bp, on both a leveraged and unleveraged basis (pages 6–7).

**Exhibit 1: NAV total return performance since listing in 2018**

	FY18*	FY19	FY20	FY21	FY22	H123	FY18–H123
Opening NAV per share (p)	97	96	97	101	108	115	97
Closing NAV per share (p)	96	97	101	108	115	92	115
DPS paid (p)	4.1	5.6	5.8	5.9	5.9	3.0	30
Dividend return	4.3%	5.8%	6.0%	5.8%	5.5%	2.6%	31.2%
Capital return	-1.1%	0.7%	4.8%	6.3%	7.0%	-19.8%	18.7%
<b>NAV total return</b>	<b>3.4%</b>	<b>6.6%</b>	<b>10.7%</b>	<b>12.1%</b>	<b>12.5%</b>	<b>-17.2%</b>	<b>49.9%</b>
Annual average compound return							7.7%

Source: Supermarket Income REIT data, Edison Investment Research. Note: \*From 21 July 2017.

## On our revised forecasts, DPS remains fully covered

We have increased our forecasts for EPRA earnings, with reduced expenses more than offsetting higher interest costs. Expenses benefit from lower investment manager fees (linked directly to NAV) in particular. Our forecast for higher interest costs better reflects the current fixed cost of borrowing as well as the maturity and refinancing of that borrowing, commencing in August 2024 (H125) (see Exhibit 4). We also allow for the recent acquisition, for £38.3m before costs, of a Tesco store in Worcester, as well as assuming that SUPR will exercise its option to acquire four of the remaining five Sainsbury's Reversion Portfolio (SRP) assets, for £28.3m. However, we assume that most of the SRP proceeds of £431m are used to repay borrowings, reducing LTV to a little under 30%.

**Exhibit 2: Forecast summary**

£m unless stated otherwise	New estimate			Previous estimate			Change					
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Rental income	96.9	106.1	108.8	97.3	103.1	107.1	(0.3)	3.0	1.6	0%	3%	2%
Expenses	(14.3)	(13.6)	(14.1)	(16.4)	(16.8)	(17.3)	2.1	3.1	3.2	-13%	-19%	-19%
Share of JV EPRA earnings	10.9	0.0	0.0	9.0	0.0	0.0	1.9	0.0	0.0			
Net finance costs	(19.5)	(16.8)	(19.1)	(18.1)	(15.5)	(15.7)	(1.4)	(1.3)	(3.5)	8%	8%	22%
<b>EPRA earnings</b>	<b>74.0</b>	<b>75.8</b>	<b>75.6</b>	<b>71.7</b>	<b>70.9</b>	<b>74.2</b>	<b>2.2</b>	<b>4.9</b>	<b>1.4</b>	<b>3%</b>	<b>7%</b>	<b>2%</b>
<b>EPRA EPS (p)</b>	<b>6.0</b>	<b>6.1</b>	<b>6.1</b>	<b>5.8</b>	<b>5.7</b>	<b>6.0</b>	<b>0.2</b>	<b>0.4</b>	<b>0.1</b>	<b>3%</b>	<b>7%</b>	<b>2%</b>
<b>DPS (p)</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<b>Dividend cover*</b>	<b>100%</b>	<b>102%</b>	<b>101%</b>	<b>101%</b>	<b>95%</b>	<b>100%</b>						
Gross borrowing	660.7	511.2	511.7	549.0	509.5	510.0	111.6	1.6	1.6	20%	0%	0%
LTV	39.9%	29.7%	28.9%	32.9%	29.6%	28.8%						
EPRA NTA per share (p)	91	96	100	91	93	97	0.6	2.9	2.7	1%	3%	3%
EPRA NTA total return	-15.5%	11.4%	10.7%	-16.0%	8.9%	11.3%						

Source: Edison Investment Research. Note: \*EPRA earnings divided by total dividends paid in the period.

## Sainsbury's Reversion Portfolio sale proceeds

The sale of SUPR's 51% beneficial interest in the SRP, which included a 25.5% beneficial interest acquired in January 2023, to Sainsbury's, completed in March. Details of the January transaction

are contained in our January [update note](#), but in brief, this was aimed at strengthening SUPR's positioning ahead of the winding up of the SRP structure while deepening its relationship with Sainsbury's and enhancing SUPR's return.

As we have previously commented, SUPR's investment generated highly attractive returns for the company, with the disposal reflecting a money multiple of 1.9x and an IRR of c 30%. On completion of the sale, SUPR received £279.3m, partly used to repay in full a £202.8m debt facility provided by JPMorgan Chase in January 2023 that provided short-term funding for SUPR's acquisition of a further 25.5% interest (part of the final 51%). In addition to this first tranche, SUPR will receive £116.9m in July and a third tranche of £34.7m, conditional on the sale of the remaining five stores in the SRP, making a total of £430.9m. Based on the 31 December 2022 (end-H123) portfolio valuation, SUPR indicated an LTV of a little under 30% following receipt of the first two tranches.

The SRP portfolio had comprised 26 freehold stores, of which 21 were acquired directly by Sainsbury's. The SRP, in which Sainsbury's now has a 100% interest, retains five stores, four of which are leased to it on new 15-year leases (with five-yearly open market rent reviews and a tenant break option at year 10) and a fifth that is to be sold with vacant possession. SUPR has an option to acquire the four regeared stores for a net consideration of £28.3m (net of SUPR's existing interest and excluding acquisition costs), which we expect it will exercise. All the stores are omnichannel, supporting both online delivery and click and collect within their respective catchments. The rent has been set at a very affordable level and SUPR expects all stores to receive renewed investment from Sainsbury's in the short to near term, underlining Sainsbury's long-term commitment to them.

Net of the Worcester acquisition and the assumed acquisition of the four SRP stores, we estimate c £150m of remaining funds available for deployment, which, in our forecasts, represents a reduction in debt, additional to the JPMorgan Chase repayment.

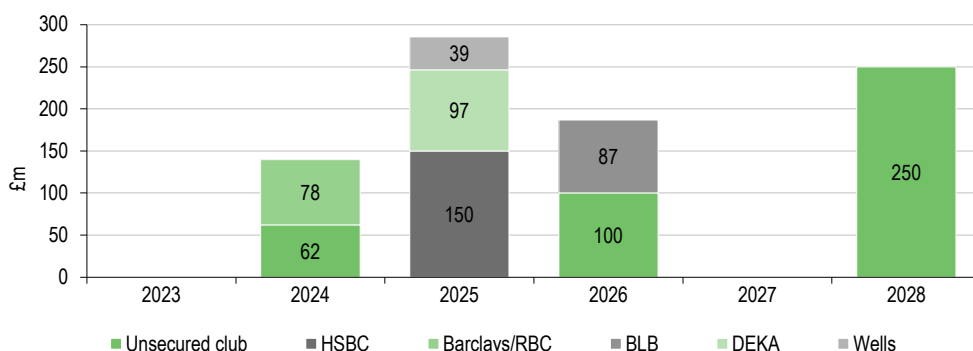
#### Exhibit 3: SRP proceeds

		£m
First tranche	March 2023 (H223)	279.3
Second tranche	July 2023 (H124)	116.9
Third tranche	Conditional	34.7
<b>Total proceeds</b>		<b>430.9</b>
Payment of carried interest		(7.5)
Repayment of debt		(202.8)
<b>Net proceeds for deployment</b>		<b>220.6</b>
Acquisition of Tesco, Worcester		(38.3)
Assumed acquisition of four SRP stores		(28.3)
<b>Remaining available funds for deployment</b>		<b>154.0</b>

Source: Supermarket Income REIT, Edison Investment Research

## We forecast rental growth to offset the eventual unwinding of interest rate hedges

SUPR's interest rate hedging is matched to the well-spread maturities of its various debt facilities, diversified across a range of lenders, fixing the cost of drawn borrowing at 2.9%, with a blended average maturity of around four years.

**Exhibit 4: Debt commitment maturity profile\***


Source: Supermarket Income REIT. Note: \*Excludes accordion/maturity extension options. See Exhibit 13 for further details.

Based on current market expectations for interest rates, reflected in the SONIA forward curve, as the hedges roll over the blended average cost of debt will increase.<sup>1</sup> In Exhibit 5 we have extended our forecasts for the period to end FY24 to end FY27, by which time the vast majority of this adjustment will be complete.<sup>2</sup> We have assumed that maturing debt is refinanced at a fixed 5% throughout and that indexed rental growth continues at 3.5%. Despite the significant increase in borrowing costs that we have assumed, this is compensated by rental growth, with full dividend cover maintained.

There are indications that pressures on the banking system may limit the availability of real estate lending but, were this to be the case, we would not expect a material impact on high-quality supermarket assets with secure and visible income. Depending on the development of financial markets, we would expect SUPR to seek an extension of its debt maturity over time, where this would lock in a positive spread between asset yield and financing costs, which would increase over time with indexed rent growth. Utilisation of the unsecured corporate bond market, leveraging the company's scale, strong fundamentals and investment-grade credit rating, would potentially add to funding flexibility.

**Exhibit 5: Rental growth should maintain DPS cover as interest rate swaps mature**

£m unless stated otherwise	FY23e	FY24e	FY25e	FY26e	FY27e
Rental income	96.9	106.1	108.8	111.9	115.8
Expenses	(14.3)	(13.6)	(14.1)	(14.5)	(15.0)
Share of JV EPRA earnings	10.9	0.0	0.0	0.0	0.0
Net finance costs	(19.5)	(16.8)	(19.1)	(22.8)	(23.5)
EPRA earnings	74.0	75.8	75.6	74.6	77.2
EPRA EPS (p)	6.0	6.1	6.1	6.0	6.2
DPS (p)	6.0	6.0	6.0	6.0	6.0
Dividend cover*	100%	102%	101%	100%	104%
Net borrowings	(651.4)	(501.1)	(502.9)	(505.6)	(505.6)
LTV	39.6%	29.5%	28.7%	27.8%	26.9%

Source: Edison Investment Research. Note: \*EPRA earnings divided by total dividends paid in the period.

<sup>1</sup> As at the date of this report, the market-implied SONIA rate is expected to peak at around 4.8–4.9% in the final quarter of 2023, fall below 4% by end 2025 (H126) and decline gently thereafter, reaching 3.5% by mid-2027 (end FY27).

<sup>2</sup> The exception is the £250m Syndicate revolving credit facility, fixed at a cost of 2.84% until July 2027 (H128).

## SRP proceeds may be deployed in acquisitions or share repurchases as well as debt repayment

The debt repayment assumed in our forecasts is just one of the options open to SUPR for the deployment of the SRP proceeds.

In Exhibit 6, we compare the earnings impact of reinvestment or share repurchases on a full year (FY24) basis. On this near-term basis, both have a similar positive impact on our forecast earnings, although over a longer period the reinvestment scenario would additionally benefit from rental growth on the assets acquired.

In the 'investment scenario', we have assumed that remaining (c £150m) SRP proceeds (see Exhibit 3), which are net of the £66.6m (before costs) of acquisitions already included in our forecasts, are invested at a 5.85% net initial yield. This increases LTV to 35%, in line with SUPR's medium-term target. The additional finance expense is based initially on 2.9% pa, in line with the savings on debt repayment reflected in our forecasts, and generates immediate accretion of 0.4p per share. We expect this accretion to be maintained as rental growth offsets the eventual increase in borrowing costs.

Alternatively, maintaining LTV at 35%, we estimate that almost £100m would be available for share repurchases, or c 9% of the shares outstanding. At the current share price, we estimate EPS accretion of 0.4p, but, unlike portfolio investment, there would be no benefit from future rental growth.

### Exhibit 6: Investment and share repurchase scenarios

£m unless stated otherwise	Estimated 2024	Investment scenario		Repurchase scenario	
BALANCE SHEET IMPACT					
Investment assets	1,699.3	150.0	1,849.3		1,699.3
Net debt	(501.3)	(150.0)	(651.2)	(97.2)	(598.4)
Other assets	(8.9)		(8.9)		(8.9)
Total net tangible assets	1,189.1		1,189.1		
LTV	29%		35%		35%
EARNINGS IMPACT					
Shares in issue	1,243.4	1,243.4	1,243.4	(113.0)	1,130.4
Income	106.2	8.8	114.9		106.2
Finance expense	(16.8)	(4.4)	(21.1)	(2.8)	(19.6)
Other costs	(13.6)		(13.6)		(13.6)
EPRA earnings	75.8	4.4	80.2		73.0
EPRA EPS (p)	6.1	0.4	6.5	0.4	6.5

Source: Edison Investment Research

## Market repricing offers acquisition opportunities

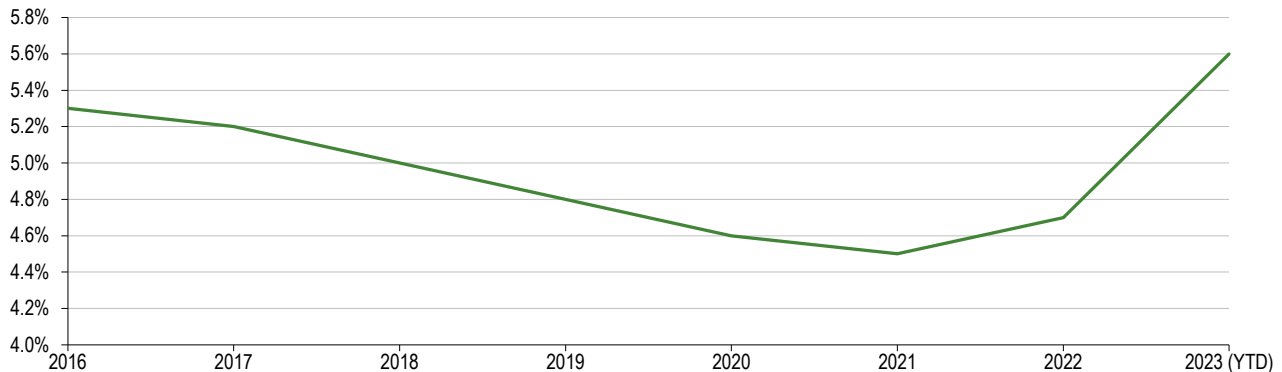
SUPR remains very confident about the sector, and its omnichannel-focused portfolio (93% by value) in particular, and sees strong opportunities to deploy capital at an increased yield. The current portfolio offers the prospect of secure long-term (14-year WAULT<sup>3</sup>), mostly inflation-indexed rental income (80%) from high-quality tenants (Tesco and Sainsbury's represent 78% of end-H123 portfolio rents), operating in a structurally supported sector. Meanwhile, inflation has increased prospective potential returns on the current portfolio and acquisitions to a level that is well above risk-free rates.

As inflation has spiked upwards and interest rates have increased, supermarket property has repriced even faster than the broad UK property market, with market valuation yields rising by c 90bp. This has been reflected in the valuation of SUPR's portfolio, with the net initial yield

<sup>3</sup> Weighted average unexpired lease term.

increasing to 5.5% from 4.6% in June 2022, and is also mirrored by the market transaction data series compiled by the company's investment adviser, Atrato Capital.

#### Exhibit 7: Selected supermarket property transaction yield series\*



Source: Supermarket Income REIT/Atrato Capital. Note: \*Based on transactions representative of SUPR's investment policy, including transactions in properties with a remaining lease length of more than 10 years, with rental uplifts that are fixed or inflation linked, as at 29 March 2023.

The above market average yield widening comes despite a number of positive influences, including:

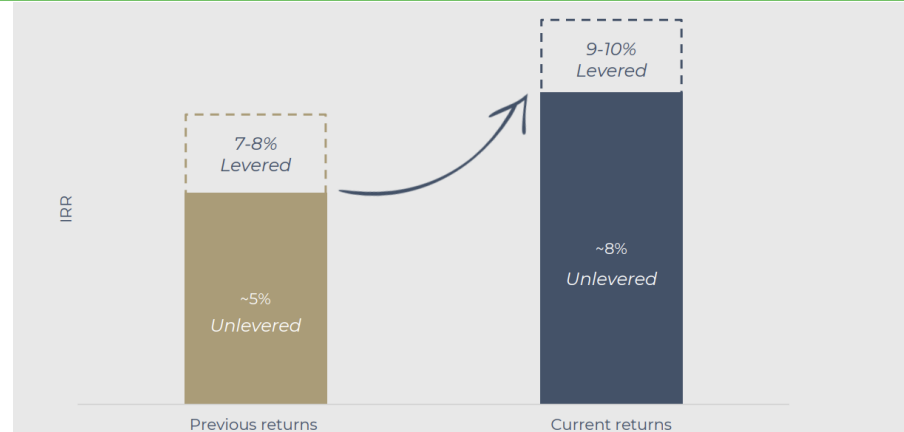
- Continuing growth in the volume of grocery sales,<sup>4</sup> which were up by 8.8% in the four weeks to 19 February 2023 versus the same period in 2022. The non-discretionary nature of most grocery sales continues to be reinforced by structural factors such as increased working and eating at home.
- Omnichannel stores, the focus of SUPR's portfolio, are the fastest-growing sales channel, and have generated 35% of sector growth over the past five years. Omnichannel sales represent more than 80% of all online sales.
- Supermarket operators are successfully passing through much of the rise in input costs and significant increases in sales values are being reflected in strong growth in cash flows.
- Larger operators such as Tesco and Sainsbury's have increasingly directed strong cash flows towards the acquisition of their own stores, increasing competition in the investment market, despite rents becoming a smaller share of turnover and more affordable.

Atrato estimates that the correction to acquisition yields has significantly increased the projected IRRs on acquisitions. The following illustrative example<sup>5</sup> shows an increase of more than 2% pa on both an unlevered and levered basis.

<sup>4</sup> Grocery market data provided by SUPR and sourced from Kantar.

<sup>5</sup> In the illustrative example, Atrato assumes the current 5.5% net initial yield on entry and exit, long run of 5.0% (based on the SONIA curve), 35% LTV, inflation based on the swaps curve (long-run RPI of 3.5% pa and CPI of 2.6% pa) and 1.8% pa growth in estimated rental value (ERV). The illustration of the previous returns uses a 4.5% net initial yield on entry and exit, finance cost of 2.8% pa, 35% LTV, inflation of 3.5% and 1.0% ERV growth.

#### Exhibit 8: Inflation has increased prospective IRRs



Source: Supermarket Income REIT

### Acquisition of Tesco, Worcester

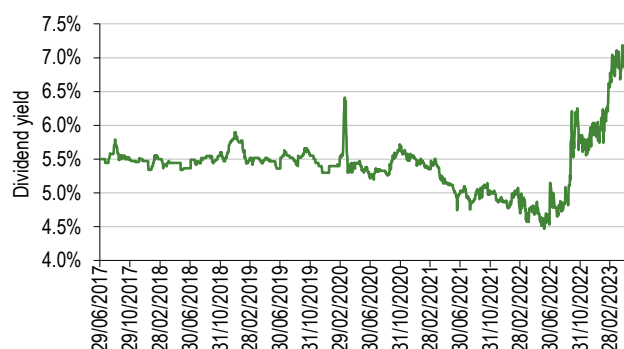
Underlining its ability to deploy capital at attractive yields, in late April SUPR announced the acquisition of a Tesco omnichannel supermarket in Worcester for £38.3m before costs, reflecting a net initial yield of 6.0%. The yield is in line with similar profile stores within SUPR's portfolio, providing support to the 31 December 2022 valuation. The store was acquired from British Steel Pension Fund, with an unexpired lease term of 12 years and annual upward-only, RPI-linked rent reviews (subject to a 4.0% cap and 0.0% floor). Although the lease length is relatively short, within the context of SUPR's overall portfolio, Tesco has a long (more than 30 years) trading history on the site, which also serves as an online hub, operating nine home delivery vans and a click & collect facility.

Additional acquisition opportunities with Sainsbury's are also possible now that SUPR is no longer in the position of being a potential seller of stores to Sainsbury's. We note that Sainsbury's continues to undertake sale and leaseback transactions and that in September 2022 it came close to completing a £500m transaction with LXI REIT, aborted as market volatility increased.

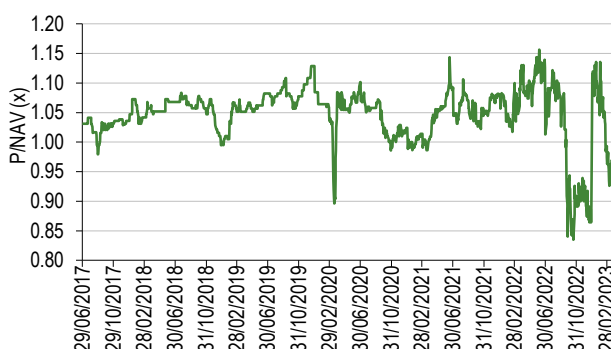
### Valuation at historically attractive level

Quarterly DPS is running at an annualised rate of 6.0p, representing a yield of c 7.0%, well above the 5.4% average since listing in June 2017. Meanwhile, the shares trade at a c 9% discount to H123 NAV compared with an average 4% premium since listing.



**Exhibit 9: Dividend yield history from IPO**


Source: Supermarket Income REIT data, Refinitiv prices, Edison Investment Research

**Exhibit 10: P/NAV history from IPO**


Source: Supermarket Income REIT data, Refinitiv prices, Edison Investment Research

In Exhibit 11, we show a comparison of SUPR with a group of other property companies that focus on income returns derived from long leases. Over the past year, feeding through to the three-year performance, SUPR's share price has trailed the peer group average, while the peer group average is slightly below the broad UK property sector. Excluding the social housing investors (Triple Point Social Housing and Civitas), SUPR's yield and P/NAV show no material divergence from the peer group average.

**Exhibit 11: 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
Alternative Income REIT	68	55	0.81	8.4	1%	-2%	-16%	-22%
Assura	51	1,504	0.84	6.0	-3%	-5%	-22%	-30%
Impact Healthcare	99	409	0.89	6.6	1%	-2%	-19%	-22%
Civitas Social Housing	80	486	0.72	7.1	36%	30%	-6%	-7%
LondonMetric	189	1,859	0.82	5.1	3%	-2%	-20%	-29%
LXi REIT	104	1,780	0.87	6.1	2%	-9%	-24%	-33%
Primary Health Properties	105	1,401	0.93	6.3	-2%	-5%	-25%	-30%
Target Healthcare	78	483	0.75	7.7	2%	-3%	-28%	-35%
Triple Point Social Housing	56	223	0.51	9.8	15%	3%	-38%	-42%
Tritax Big Box	147	2,745	0.81	4.8	-1%	-3%	-26%	-29%
<b>Average</b>			<b>0.80</b>	<b>6.6</b>	<b>6%</b>	<b>0%</b>	<b>-23%</b>	<b>-29%</b>
<b>Supermarket Income</b>	86	1,072	0.94	6.9	-4%	-12%	-31%	-36%
UK property sector index	1,317				-1%	-8%	-22%	-27%
UK equity market index	4,215				-1%	-2%	5%	-4%

Source: Company data, Refinitiv. Note: \*Based on last reported EPRA NAV/NTA. \*\*Based on last 12 months DPS declared. Priced at 19 May 2023.

## H123 results details

H123 results continued to show the impact of strong portfolio growth. During the period, SUPR acquired a further eight stores for an aggregate £299m and in total, over the 12 months since end H122, it has purchased 12 stores for an aggregate £437m.

On an IFRS basis, H123 rent roll increased £17.9m or 36% to £98.1m pa versus H122. This included £16.6m from acquisitions and 3.7% like-for-like growth or £1.2m.

Although not immune to the property yield widening seen across the UK commercial property sector in the second half of 2022, supermarket property has been less volatile, and the 13% like-for-like decline in SUPR's portfolio in H123 compares favourably with the c 19% decline in the broad market indicated by MSCI data.



**Exhibit 12: Summary of H123 financial performance**

£m unless stated otherwise	H123	H122	H123/H122	H222	FY22
Total net rental income	45.9	32.6	41%	39.5	72.1
Administrative & other expenses	(7.9)	(6.2)	27%	(7.7)	(13.9)
Operating profit before investment property change in fair value	38.0	26.4	44%	31.7	58.2
Net finance expense	(8.9)	(5.7)	58%	(7.3)	(13.0)
Share of income from joint venture (exc. revaluation gains)	7.4	6.2	19%	6.1	12.2
<b>Adjusted EPRA earnings</b>	<b>36.4</b>	<b>26.9</b>	<b>35%</b>	<b>30.5</b>	<b>57.4</b>
Change in fair value of investment properties	(248.1)	11.0		10.9	21.8
Change in fair value of investment properties within JV	11.5	31.0		0.0	31.1
Change in value of interest rate derivatives	0.8	2.2		3.3	5.6
One-off acceleration of unamortised loan arrangement fees	(1.5)	0.0		0.0	0.0
<b>IFRS earnings</b>	<b>(200.8)</b>	<b>71.2</b>		<b>44.7</b>	<b>115.9</b>
Period end number of shares	1,242.6	985.4	26%	1,239.9	1,239.9
Average number of shares (m)	1,241.5	878.2	41%	1,072.3	975.2
Basic & diluted IFRS EPS (p)	(16.3)	7.9		3.9	11.3
<b>Adjusted EPRA EPS (p)</b>	<b>2.9</b>	<b>3.1</b>	<b>-4%</b>	<b>2.8</b>	<b>5.9</b>
DPS declared (p)	3.00	2.97	1%	2.97	5.94
EPRA basis dividend cover (x)	0.98	1.13		1.04	1.08
Adjusted EPRA cost ratio	15.1%	15.8%		115.8%	16.5%
Gross assets	1,924	1,621		1,808	1,808
Investment properties	1,625	1,414		1,562	1,562
Net assets	1,198	1,115		1,432	1,432
EPRA NTA per share (p)	92	113		115	115
EPRA NTA total return	-17.2%	7.8%		4.5%	12.5%
Net debt	(655.2)	(457.8)		(301.0)	(301.0)
Loan to value ratio (LTV)	40.3%	32.4%		19.3%	19.3%

Source: Supermarket Income REIT data, Edison Investment Research

The key features of the H123 results include:

- Net rental income increased 41% to £45.9m (and increased 16% versus H222) but has yet to fully reflect the growth in passing rent.
- Administrative expenses increased 27% y-o-y to £7.9m as SUPR continued to scale business, but also included £0.9m of non-recurring expenses related to the unwinding of the joint venture (JV) interest. Excluding the non-recurring expenses, the adjusted EPRA cost ratio was 15.1% versus 15.8% in H122. On a reported basis, including direct vacancy costs relating to the non-supermarket assets, the EPRA cost ratio was 16.7% versus 15.8% in H122 and 16.3% for FY22.
- The JV, representing SUPR's beneficial interest in the SRP, contributed £7.4m.
- On an underlying basis, contributing to EPRA earnings, finance expenses increased to £8.9m, driven mainly by additional debt drawn to fund the growth of the portfolio, and an increase in average borrowing costs as interest rates rose. The IFRS net finance charge of £10.4m included £1.5m of accelerated amortisation of loan arrangement fees on refinanced debt.
- Adjusted EPRA earnings<sup>6</sup> increased 35% y-o-y to £36.4m (and increased 19% vs H222). Reflecting the 41% increase in the average number of shares in issue,<sup>7</sup> adjusted EPRA EPS was 4% lower compared with H122 at 2.9p (but ahead of 2.8p in H222).
- DPS declared of 3.0p was in line with SUPR's 6.0p target for FY23, which it expects to be fully covered (98% in H123).
- IFRS earnings included a £248m negative valuation movement on the direct portfolio, partly offset by an increase in valuation within the JV (not included in the JV EPRA earnings).

<sup>6</sup> Unadjusted EPRA earnings includes the accelerated amortisation of loan fees and excludes £2.1m of finance income received on interest rate derivatives held at fair value through profit and loss. We believe inclusion of the latter provides a better representation of the actual cost of borrowing.

<sup>7</sup> SUPR issued 173.9m shares in October 2021 (Q222) and 253.5m shares in April 2022 (Q422).

- NAV per share was 20% lower versus end FY22, at 92p, but was only modestly lower versus end H122 (113p). Including DPS paid, NAV total return was a negative 17.2%.

## Further details on debt financing

During H123, SUPR undertook significant financing activity, extending and broadening its banking relationships.

Early in the period, in July 2022, it agreed a new £412m unsecured credit facility with a bank syndicate comprising Barclays, Royal Bank of Canada, Wells Fargo and Royal Bank of Scotland International, priced at 1.5% above SONIA with a weighted average term of six years (inclusive of uncommitted extension options). The proceeds were part-used to repay £255m of existing debt. In September, the maturity of the existing £150m revolving credit facility (RCF) with HSBC was extended by two years (inclusive of a one-year accordion option, subject to bank approval), with all other terms remaining the same.

With interest rates remaining volatile, SUPR decided to fix all drawn debt at 2.9% through the expected peak of the market interest rate curve (see footnote 1). To fix the cost of the drawn floating rate debt exposure, the company entered into three interest rate swaps, covering £381m of borrowings, and purchased an interest rate cap on £96.5m of the HSBC RCF until August 2024.

The cost of acquiring these interest rate derivatives was £41.4m, to be amortised through the income statement over their average four-year term.

Post period-end, in January, SUPR borrowed £202.8m from JPMorgan Chase on a short-term basis to fund the purchase of its increased beneficial interest in the SRP and it was subsequently repaid in full using the first tranche of the sale proceeds. The existing loan facilities with Bayerische Landesbank (BLB) were also refinanced in March 2023, with a new three-year £86.9m term loan fixed at an all-in rate of 4.29%.

Following these refinancings, SUPR has £862m of total borrowing facilities, £172m of which was undrawn at end-H123. The £38.3m acquisition of Tesco, Worcester was financed from the remaining proceeds of the first tranche of the SRP sale proceeds.

**Exhibit 13: Summary of debt portfolio\***

Lender	Facility	Expiry	Expiry*	Margin	Swap/cap rate	Commitment	Drawn**
HSBC	RCF	Aug-24	Aug-25	1.65%	1.12% cap	£96.5	£96.5
HSBC	RCF	Aug-24	Aug-25	1.65%	SONIA	£3.5	Nil
HSBC	RCF	Aug-24	Aug-25	1.75%	SONIA	£50.0	Nil
Deka	Term	Aug-24	Aug-26	1.35%	0.54%	£47.6	£47.6
Deka	Term	Aug-24	Aug-26	1.35%	0.70%	£28.9	£28.9
Deka	Term	Aug-24	Aug-26	1.40%	0.32%	£20.0	£20.0
BLB	Term	Mar-26	Mar-26	1.65%	2.64%	£86.9	£86.9
Wells Fargo	RCF	Jul-25	Jul-27	2.00%	0.19% swap	£30.0	£30.0
Wells Fargo	RCF	Jul-25	Jul-27	2.00%	SONIA	£9.0	Nil
Barclays/RBC	RCF	Jan-24	Jan-26	1.50%	SONIA	£77.6	Nil
Syndicate	RCF	Jul-27	Jul-29	1.50%	1.34% swap	£250.0	£218.5
Syndicate	Term	Jul-25	Jan-25	1.50%	1.34% swap	£100.0	£100.0
Syndicate	Term	Jan-24	Jan-25	1.50%	1.34% swap	£62.1	£62.1
<b>Total</b>						<b>£862.1</b>	<b>£690.5</b>

Source: Supermarket Income REIT. Note: \*Expiry including accordion/maturity extension options. \*\*Drawn at 31 December 2022.

**Exhibit 14: Financial summary**

Year ended 30 June (£m)	2021	2022	2023e	2024e	2025e
<b>INCOME STATEMENT</b>					
Rent receivable	46.2	69.7	94.6	103.5	106.2
Rent smoothing adjustment	2.0	2.7	2.8	3.0	3.0
Net service charge expense	(0.2)	(0.3)	(0.5)	(0.4)	(0.4)
Total rental income	47.9	72.1	96.9	106.1	108.8
Administrative & other expenses	(9.3)	(13.9)	(14.3)	(13.6)	(14.1)
Operating profit before investment property change in fair value	38.7	58.2	82.6	92.5	94.7
Change in fair value of investment properties	36.3	21.8	(302.8)	53.3	51.8
Share of profit of JV	12.2	43.3	48.4	0.0	0.0
Negative goodwill	3.3	0.0	0.0	0.0	0.0
Operating profit/(loss)	90.5	123.3	(171.8)	145.8	146.5
Net finance expense	(8.5)	(13.0)	(21.0)	(16.8)	(19.1)
Change in fair value of interest rate derivative			(6.0)	(10.0)	(10.0)
Profit/(loss) before tax	82.0	110.3	(198.8)	119.1	117.4
Tax	0.0	0.0	0.0	0.0	0.0
Profit/(loss) for the period	82.0	110.3	(198.8)	119.1	117.4
Adjust for:					
Changes in fair value of investment property	(36.3)	(21.8)	302.8	(53.3)	(51.8)
Share of changes in fair value of JV investment property	(8.9)	(31.1)	(37.6)	0.0	0.0
Change in fair value of interest rate derivative		0.0	6.0	10.0	10.0
Non-recurring	0.0	0.0	1.5	0.0	0.0
EPRA earnings	36.8	57.4	74.0	75.8	75.6
EPRA cost ratio inc. direct vacancy costs	16.8%	16.5%	14.7%	12.8%	12.9%
Closing number of shares (m)	810.7	1,239.9	1,243.4	1,243.4	1,243.4
Average number of shares in issue (m)	652.8	975.2	1,242.3	1,243.4	1,243.4
IFRS EPS (p)	12.6	11.3	(16.0)	9.6	9.4
EPRA EPS (p)	5.6	5.9	6.0	6.1	6.1
DPS declared (p)	5.86	5.94	6.00	6.00	6.00
Total EPRA earnings (£m)/Total dividends paid (£m)	104%	108%	100%	102%	101%
EPRA NTA total return	12.1%	12.5%	-15.5%	11.4%	10.7%
<b>BALANCE SHEET</b>					
Investment property	1,148.4	1,561.6	1,642.9	1,699.3	1,754.1
Associate	130.3	177.1	151.6	0.0	0.0
Other non-current assets	131.3	193.1	189.3	27.7	17.7
Total non-current assets	1,279.7	1,754.7	1,832.3	1,727.0	1,771.8
Trade & other receivables	3.1	1.86	5.1	5.4	5.5
Cash & equivalents	19.6	51.20	9.3	10.1	8.8
Other current assets	0.2	0.28	15.5	15.5	15.5
Total current assets	23.0	53.35	29.9	30.9	29.8
Deferred rental income	(12.1)	(16.4)	(21.2)	(21.2)	(21.2)
Current tax liabilities	0.0	0.0	0.0	0.0	0.0
Trade & other payables	(8.4)	(10.7)	(15.3)	(16.1)	(16.5)
Total current liabilities	(20.4)	(27.0)	(36.5)	(37.2)	(37.6)
Bank borrowings	(409.7)	(348.5)	(660.7)	(511.2)	(511.7)
Interest rate derivatives	(1.2)	0.0	0.0	0.0	0.0
Total non-current liabilities	(410.9)	(348.5)	(660.7)	(511.2)	(511.7)
Net assets	871.3	1,432.5	1,165.0	1,209.5	1,252.3
IFRS NAV per share (p)	107	116	94	97	101
EPRA NTA per share (p)	108	115	91	96	100
<b>CASH FLOW</b>					
Net cash from operations	42.8	63.0	86.6	90.0	92.0
Acquisition & investment in investment property	(570.0)	(388.7)	(381.4)	0.0	0.0
Net investment in associate	(58.7)	(3.5)	74.0	151.6	0.0
Other investing activity	(0.9)	(10.6)	0.1	0.0	0.0
Net cash from investing activity	(629.5)	(402.8)	(307.3)	151.6	0.0
Share issuance (net of costs)	345.6	496.4	(0.0)	0.0	0.0
Debt drawn/(repaid)	284.7	(61.1)	313.3	(150.0)	0.0
Interest paid and other financing costs	(9.3)	(12.7)	(64.2)	(16.3)	(18.6)
Dividends paid	(34.9)	(51.1)	(70.4)	(74.6)	(74.6)
Net cash from financing activity	586.0	371.5	178.8	(240.9)	(93.2)
Change in cash	(0.8)	31.6	(41.9)	0.8	(1.3)
Opening cash	20.4	19.6	51.2	9.3	10.1
Closing cash	19.6	51.2	9.3	10.1	8.8
Debt as per balance sheet	(409.7)	(348.5)	(660.7)	(511.2)	(511.7)
Net debt	(390.1)	(297.3)	(651.4)	(501.1)	(502.9)
LTV	34.3%	19.3%	39.9%	29.7%	28.9%

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

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