

COMPANY UPDATE

United Hampshire US REIT (UHU SP)

Building Scale Brick By Brick

The acquisition of Upland Square is in line with UHU's focus to expand its portfolio of grocery-anchored and necessity-based retail properties along the Eastern Seaboard. Upland Square's key tenants include Ahold Delhaize, Burlington and TJ Maxx. The acquisition provides attractive NPI yield of 6.5% and is accretive to pro forma 2021 DPU by 2.1%. UHU provides compelling 2023 distribution yield of 10.3% and trades at a 19% discount to NAV per unit of US\$0.75. Maintain BUY. Target price: US\$0.91.

WHAT'S NEW

- United Hampshire US REIT (UHU) has entered into a sale and purchase agreement to acquire Upland Square Shopping Center in the County of Montgomery (third highest populous county), Pennsylvania for US\$85.7m.
- Expand presence in Pennsylvania.** UHU continues to expand its presence along the Eastern Seaboard. It currently owns one grocery-anchored and necessity-based retail property in Pennsylvania, namely Penrose Plaza. The acquisition of Upland Square Shopping Center expands UHU's exposure to the state of Pennsylvania from 7.3% to 17.7% of base rental income. The acquisition increases the size of UHU's portfolio by 6%. Portfolio WALE remains stable at 7.7 years.

PROPERTY OVERVIEW – UPLAND SQUARE SHOPPING CENTER

Purchase Consideration	US\$85.7m
Valuation (Cushman & Wakefield)	US\$86.0m
NLA	400,674sf
Occupancy	94% (committed occupancy at 100% as of Jun 22)
Weighted Average Lease Expiry (WALE)	5.6 years by Base Rental Income
Number of Tenants	35
Implied Capitalisation Rate	6.5%
Land Tenure	Freehold
Year Built	2009 (construction) / 2019 (further expansion)

Source: UHU

- Stable rental income underpinned by quality tenants.** The anchor tenant at Upland Square Shopping Center is Giant by Ahold Delhaize, a leading supermarket operator in the Mid-Atlantic region. It has three dominant national off-price retailers, namely Burlington, Ross and TJ Maxx. Other key tenants include Petco (chain of stores for pet food and supplies), Ashley Furniture (home furnishings retailer) and Ulta Beauty Supplies (chain of beauty stores carrying cosmetics, fragrances, nail, bath and body products).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	42	55	69	73	74
EBITDA	27	37	46	50	49
Operating profit	27	37	46	50	49
Net profit (rep./act.)	6	46	36	35	34
Net profit (adj.)	22	25	35	35	34
EPU (US\$ cent)	4.4	4.8	6.1	6.2	5.9
DPU (US\$ cent)	4.8	6.1	6.5	6.2	6.2
PE (x)	13.6	12.6	9.9	9.8	10.3
P/B (x)	0.8	0.8	0.8	0.8	0.9
DPU Yld (%)	8.0	10.1	10.7	10.3	10.3
Net margin (%)	13.4	83.6	51.4	48.2	45.8
Net debt/(cash) to equity (%)	54.4	61.0	75.3	78.0	80.9
Interest cover (x)	4.8	5.1	4.8	3.8	3.7
ROE (%)	n.a.	11.6	8.6	8.6	8.4
Consensus DPU (US\$ cent)	n.a.	n.a.	6.3	6.3	6.3
UOBKH/Consensus (x)	-	-	1.02	0.98	0.99

Source: United Hampshire US REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.605
Target Price	US\$0.91
Upside	+50.4%
(Previous TP)	US\$0.88

COMPANY DESCRIPTION

UHREIT invests in income-producing real estate used primarily for grocery-anchored & necessity-based retail and self-storage purposes in the US.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	UHU SP
Shares issued (m):	560.0
Market cap (US\$m):	338.8
Market cap (US\$m):	338.8
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

52-week high/low	US\$0.755/US\$0.595			
1mth	3mth	6mth	1yr	YTD
(1.6)	(2.4)	(8.3)	(18.2)	(9.0)

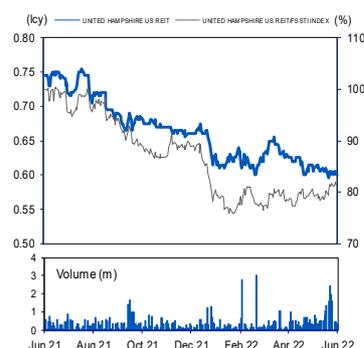
Major Shareholders

U.S. RE Fund II Offshore Feeder 1	8.0
The Hampshire Generational Fund LLC	8.0
Golden Sun (China)	5.9

FY22 NAV/Share (US\$) 0.73

FY22 Net Debt/Share (US\$) 0.55

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Recycling capital to higher-yielding grocery-anchored retail properties.** Upland Square Shopping Center provides NPI yield of 6.5%. The acquisition will be funded by an existing mortgage loan of US\$43m and net proceeds from the divestment of Elizabeth and Perth Amboy Self-Storage properties of US\$44m. Management estimated that the acquisition increases pro forma 2021 DPU by 2.1% to 6.23 US cents after factoring in the higher cost of mortgage loan and divestment of its two self-storage properties.

UPLAND SQUARE SHOPPING CENTER



Source: UHU

EARNINGS REVISION/RISK

- We raise our 2023 DPU forecast by 3% due to full-year contributions from Upland Square Shopping Center.

VALUATION/RECOMMENDATION

- **Enticing and irresistible yield spread.** UHU trades at 2023 distribution yield of 10.3%, which represents an attractive yield spread of 7.2% above the 10-year US government bond yield of 3.1%. It trades at P/NAV of 0.81x.
- **Maintain BUY.** Our target price of US\$0.91 is based on the dividend discount model (DDM) (cost of equity: 8.0%, terminal growth: 1.3%).

SHARE PRICE CATALYST

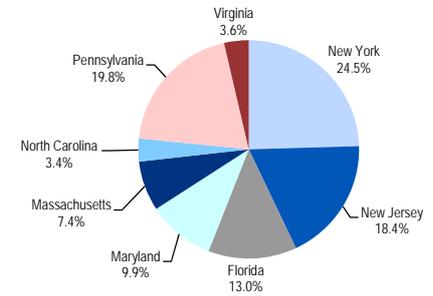
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery-anchored & necessity-based retail properties.

KEY OPERATING METRICS – UHU

		1Q21	2Q21	3Q21	4Q21	1Q22	yoy	qoq
DPU	US cents	n.a.	3.05	n.a.	3.05	n.a.	n.a.	n.a.
Occupancy	%	93.9%	94.8%	95.5%	95.3%	96.4%	2.5ppt	1.1ppt
Aggregate Leverage	%	37.5%	36.4%	37.6%	39.0%	38.9%	1.4ppt	-0.1ppt
Average Cost of Debt	%	2.79%	2.85%	2.77%	2.63%	2.89%	0.1ppt	0.3ppt
Weighted Average Lease Expiry (WALE)	year	8.1	8.0	8.1	8.0	7.8	-0.3yrs	-0.2yrs

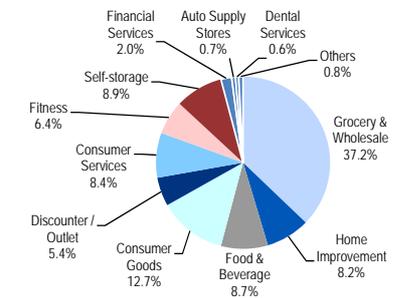
Source: UHU, UOB Kay Hian * hoh % chg for DPU

AUM BY STATE POST-ACQUISITION



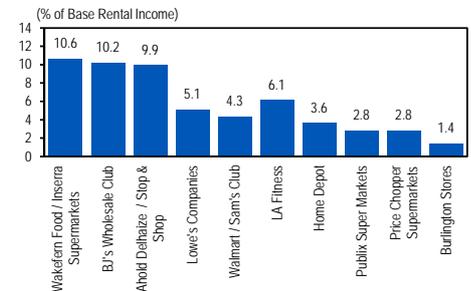
Source: UHU

TRADE SECTOR BY BASE RENTAL INCOME POST-ACQUISITION



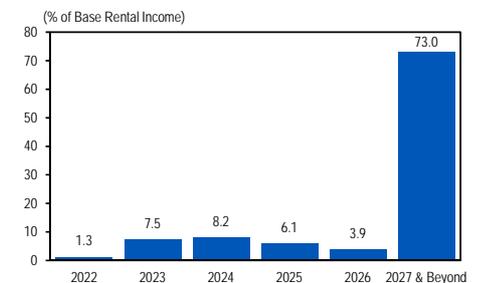
Source: UHU

TOP-10 TENANTS POST-ACQUISITION – GROCERY & NECESSITY RETAIL PROPERTIES



Source: UHU

LEASE EXPIRY PROFILE POST-ACQUISITION – GROCERY & NECESSITY RETAIL PROPERTIES



Source: UHU

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	55.2	69.4	73.2	74.1
EBITDA	36.9	46.1	50.3	49.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	36.9	46.1	50.3	49.3
Total other non-operating income	3.0	0.0	0.0	0.0
Net interest income/(expense)	(7.2)	(9.6)	(13.2)	(13.5)
Pre-tax profit	53.5	37.5	37.1	35.8
Tax	(6.9)	(1.6)	(1.7)	(1.7)
Minorities	(0.5)	(0.2)	(0.2)	(0.2)
Net profit	46.1	35.7	35.2	33.9
Net profit (adj.)	25.3	34.7	35.2	33.9

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	711.7	762.0	766.4	770.8
Other LT assets	0.0	0.0	0.0	0.0
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	11.2	15.1	17.0	13.4
Other current assets	6.7	8.3	8.4	8.4
Total assets	729.5	785.4	791.7	792.6
Other current liabilities	14.8	16.9	17.0	17.1
LT debt	265.6	325.0	335.0	340.0
Other LT liabilities	29.8	29.8	29.8	29.8
Shareholders' equity	417.0	411.7	407.9	403.6
Minority interest	2.3	2.0	2.0	2.0
Total liabilities & equity	729.5	785.4	791.7	792.6

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	36.9	(6.2)	43.5	43.8
Pre-tax profit	29.4	32.0	33.5	33.5
Deprec. & amort.	(1.8)	(1.8)	(1.8)	(1.8)
Working capital changes	1.2	0.4	0.1	0.1
Non-cash items	3.1	5.9	3.4	3.8
Other operating cashflows	4.9	(42.7)	8.4	8.3
Investing	(85.3)	(4.5)	(4.5)	(4.5)
Capex (growth)	(78.3)	0.0	0.0	0.0
Capex (maintenance)	(7.0)	(4.5)	(4.5)	(4.5)
Others	0.0	0.0	0.0	0.0
Financing	46.6	14.7	(37.2)	(42.9)
Distribution to unitholders	(31.2)	(36.5)	(35.4)	(35.8)
Issue of shares	35.0	0.0	0.0	0.0
Proceeds from borrowings	48.5	59.4	10.0	5.0
Others/interest paid	(5.8)	(8.2)	(11.8)	(12.1)
Net cash inflow (outflow)	(1.8)	4.0	1.8	(3.6)
Beginning cash & cash equivalent	13.0	11.2	15.1	17.0
Ending cash & cash equivalent	11.2	15.1	17.0	13.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	66.8	66.5	68.8	66.5
Pre-tax margin	96.9	54.0	50.7	48.3
Net margin	83.6	51.4	48.2	45.8
ROA	6.8	4.7	4.5	4.3
ROE	11.6	8.6	8.6	8.4
Growth				
Turnover	32.6	25.7	5.5	1.3
EBITDA	37.8	25.0	9.2	(2.0)
Pre-tax profit	788.1	(30.0)	(0.9)	(3.5)
Net profit	725.4	(22.7)	(1.1)	(3.7)
Net profit (adj.)	15.0	36.9	1.7	(3.7)
EPU	7.8	28.1	0.6	(4.6)
Leverage				
Debt to total capital	38.8	44.0	45.0	45.6
Debt to equity	63.7	78.9	82.1	84.2
Net debt/(cash) to equity	61.0	75.3	78.0	80.9
Interest cover (x)	5.1	4.8	3.8	3.7

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