

## COMPANY RESULTS

### United Hampshire US REIT (UHU SP)

1Q23: Strip Centres At The Forefront Of A Retail Recovery

Retail real estate in the US demonstrated resiliency with 10 consecutive quarters of positive net absorption. According to CBRE, strip centres are leading the recovery with rent growth of 2.7% yoy in 1Q23. UHU's strip centres cater to necessity spending and have long WALE of 7.4 years. Occupancy has improved marginally by 0.1ppt qoq to a record 97.0% in 1Q23. UHU provides resiliency and lucrative 2023 distribution yield of 11.1% and trades at P/NAV of 0.62x. Maintain BUY. Target price: US\$0.71.

#### 1Q23 RESULTS

Year to 31 Dec (US\$m)	2H22	yoy % Chg	Remarks
Gross Revenue	18.1	+11.8	Contribution from newly-acquired Upland Square and
Net Property Income (NPI)	12.9	+13.5	organic growth from its existing properties.
Distributable Income	8.8	+7.6	

Source: UHU, UOB Kay Hian

#### RESULTS

- United Hampshire US REIT (UHU) reported distributable income of US\$8.8m for 1Q23 (+7.6% yoy), which is slightly above expectations.
- Growing organically and via acquisitions.** Gross revenue and NPI grew 11.8% and 13.5% yoy respectively for 1Q23, driven by its third and largest acquisition of Upland Square in Pottstown, Pennsylvania (completion: 28 Jul 22) and organic growth from its existing properties.
- UHU achieved positive low single-digit rental reversion** for seven leases (new lease: one and renewal leases: six) covering 217,089sf of retail space executed in 1Q23. Of the six renewal leases, three leases were signed at higher rents and two leases provided higher rents based on contractual rental escalation. There is minimal leasing risk with only 2.1% of leases expiring during the rest of 2023. Committed occupancy for grocery & necessity properties edged marginally higher by 0.1ppt qoq to 97.0% in 1Q23.
- Walmart has exercised its five-year renewal option at Hudson Valley Plaza in Kingston, New York.** Walmart, UHU's 6th largest tenant, accounted for 4.3% of gross rental income. The lease extension demonstrates the attractiveness of UHU's properties.
- Resiliency from essential services and long WALE.** Essential services, including recession-resistant grocery & wholesale, discounter/outlet, home improvement and food & beverage sectors, accounted for 63.3% of base rental income as of Mar 23. UHU has long weighted average lease expiry (WALE) of 7.4 years. Its triple net leases require tenants to reimburse the landlord for property taxes, insurance and maintenance for common areas, which shelter UHU from the negative impact of inflation. Leases for anchor tenants typically have built-in rental escalation of 5-10% for every five to 10 years. Tenants typically do not have early termination rights.

#### KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	55	67	71	74	75
EBITDA	37	43	47	46	49
Operating profit	37	43	47	46	49
Net profit (rep./act.)	46	28	27	26	28
Net profit (adj.)	25	28	27	26	28
EPU (US\$ cent)	4.8	4.9	4.8	4.6	4.9
DPU (US\$ cent)	6.1	5.9	5.0	5.0	5.1
PE (x)	9.3	9.0	9.3	9.7	9.0
P/B (x)	0.6	0.6	0.6	0.6	0.6
DPU Yld (%)	13.7	13.2	11.1	11.3	11.4
Net margin (%)	83.6	41.6	38.0	35.6	38.0
Net debt/(cash) to equity (%)	61.0	71.1	76.0	78.8	81.7
Interest cover (x)	5.1	3.6	2.9	2.8	2.9
ROE (%)	11.6	6.7	6.4	6.2	6.8
Consensus DPU (US\$ cent)	n.a.	n.a.	5.2	5.3	5.1
UOBKH/Consensus (x)	-	-	0.95	0.95	1.00

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

## BUY

(Maintained)

Share Price	US\$0.445
Target Price	US\$0.710
Upside	+59.6%

#### 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):	570.5			
Market cap (US\$m):	253.9			
Market cap (US\$m):	253.9			
3-mth avg daily t'over (US\$m):	0.1			
<b>Price Performance (%)</b>				
52-week high/low		US\$0.635/US\$0.425		
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.3)	(11.9)	(11.0)	(25.8)	(4.3)
<b>Major Shareholders</b>				<b>%</b>
U.S. RE Fund II Offshore Feeder 1				7.8
The Hampshire Generational Fund LLC				8.0
Golden Sun (China)				5.9
FY23 NAV/Share (US\$)				0.74
FY23 Net Debt/Share (US\$)				0.56

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Self-storage properties: Rents on an upward trajectory.** Occupancies at self-storage properties Carteret and Millburn were 91.7% and 92.6% respectively as of Mar 23. Average net rent rate for Carteret and Millburn increased 9.7% and 16.5% yoy respectively to US\$23.70 and US\$26.90 psf in 1Q23.
- **Prudent capital management.** Aggregate leverage was stable at 42.6% as of Mar 23. Weighted average interest rate on a trialling 12-month basis edged higher by 0.25ppt qoq to 3.02% in 1Q23 (excluding upfront costs). Interest coverage ratio remains healthy at 3.1x. About 80% of its borrowings are hedged to fixed rates.
- **Successfully completed refinancing for 2023 and 2024.** UHU's key bankers are Canadian Imperial Bank of Commerce (Bloomberg ticker: CM CN) and M&T Bank (Bloomberg ticker: MTB US). It has successfully completed the refinancing of its term loans due in 2023 and 2024. There is no significant refinancing requirement until Nov 26. The weighted average debt maturity was 3.7 years.

### STOCK IMPACT

- **Strip centres at the forefront of retail recovery.** Retail real estate is recovering after many years of minimal construction. According to CBRE, neighbourhood and community strip centres registered the strongest recovery and accounted for 38m sf or 45% of retail absorption in 2022. Availability dropped 2.4ppt over the past five years and declined by 0.2ppt qoq to 6.9% in 4Q22. Neighbourhood and community strip centres saw strongest growth in asking rent at 3.0% yoy in 4Q22.
- **Limited supply strengthens ability to push rents.** Landlords' bargaining power has strengthened due to solid demand, limited supply, high tenant retention and fewer bankruptcies. According to Green Street, strip centres have the least new supply coming on stream over the next five years due to elevated construction costs and supply barrier, especially in dense affluent residential suburbs.
- **Physical stores back in favour.** The balance between e-commerce and physical in-store shopping has reached equilibrium. There is a revival in brick-and-mortar retailing as consumers seek in-store shopping experiences. Shoppers have returned to physical stores as the economy reopens. Nowadays, physical stores also function as last-mile distribution and fulfilment hubs, which draw even more shopper traffic when online customers pick up or return items at physical stores.
- **Asset enhancement initiative.** UHU will invest US\$12m to develop a new 63,000sf store on excess land within its St Lucie West property in Florida. Academy Sports + Outdoors, a Fortune 500 sporting goods retailer, will lease the new store for 15 years. The new store will be completed and opened in 2024 and is expected to provide ROI at high single digits.

### EARNINGS REVISION/RISK

- We maintain our existing DPU forecasts.

### VALUATION/RECOMMENDATION

- **Enticing and irresistible yield spread.** UHU trades at 2023 distribution yield of 11.1%, which represents an attractive yield spread of 7.6% above the 10-year US government bond yield of 3.5%. It trades at P/NAV of 0.62x.
- **Maintain BUY.** Our target price of US\$0.71 is based on the dividend discount model (DDM) (cost of equity: 8.5%, terminal growth: 1.5%).

### SHARE PRICE CATALYST

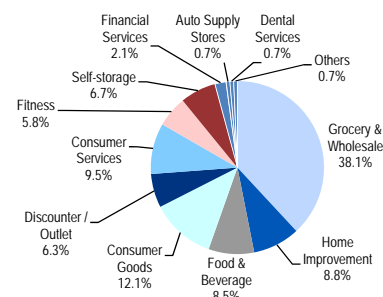
- Stability of spending on necessity products and essential services.
- Yield-accretive acquisitions of grocery & necessity retail properties.

### KEY OPERATING METRICS – UHU

		1Q22	2Q22	3Q22	4Q22	1Q23	yoy	qoq*
DPU	US cents	n.a.	2.91	n.a.	2.97	n.a.	n.a.	n.a.
Occupancy	%	96.4%	96.2%	96.7%	96.9%	97.0%	0.6ppt	0.1ppt
Aggregate Leverage	%	38.9%	38.0%	42.1%	41.8%	42.6%	3.7ppt	0.8ppt
Average Cost of Debt	%	2.89%	3.00%	3.05%	2.77%	3.02%	0.1ppt	0.3ppt
Weighted Average Lease Expiry (WALE)	year	7.8	8.0	7.6	7.5	7.4	-0.4yrs	-0.1yrs
Weighted Debt Maturity	year	2.3	2.0	2.1	4.0	3.7	1.4yrs	-0.3yrs
% Borrowing in Fixed Rates	%	79.6	80.5	82.0	81.4	80.2	0.8%	-1.5%

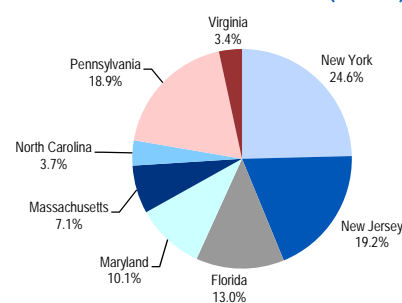
Source: UHU, UOB Kay Hian \* hoh % chg for DPU

### BASE RENTAL INCOME BY TRADE SECTOR (DEC 22)



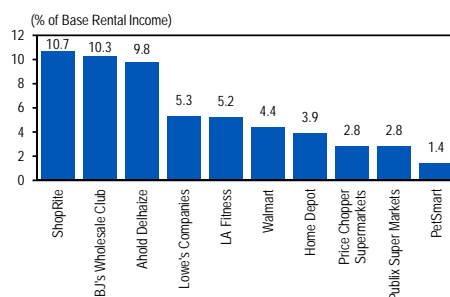
Source: UHU

### PORTFOLIO VALUATION BY STATE (DEC 22)



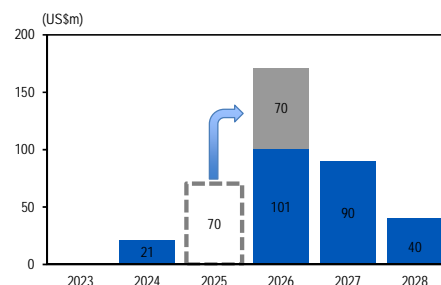
Source: UHU

### TOP-10 TENANTS – GROCERY & NECESSITY RETAIL PROPERTIES



Source: UHU

### DEBT MATURITY PROFILE



Source: UHU

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	67.5	71.4	73.6	74.6
EBITDA	43.4	46.6	46.4	48.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	43.4	46.6	46.4	48.7
Total other non-operating income	0.2	0.0	0.0	0.0
Net interest income/(expense)	(12.2)	(16.2)	(16.8)	(17.0)
Pre-tax profit	31.6	30.4	29.6	31.8
Tax	(3.1)	(3.0)	(3.2)	(3.2)
Minorities	(0.4)	(0.2)	(0.2)	(0.2)
Net profit	28.0	27.2	26.2	28.4
Net profit (adj.)	27.8	27.2	26.2	28.4

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	761.1	777.1	781.5	785.9
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	12.2	14.8	16.2	12.6
Other current assets	12.6	9.3	9.5	9.6
<b>Total assets</b>	<b>785.9</b>	<b>801.2</b>	<b>807.2</b>	<b>808.0</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	12.3	11.0	11.3	11.4
LT debt	314.3	335.0	345.0	350.0
Other LT liabilities	31.7	31.7	31.7	31.7
Shareholders' equity	425.1	421.5	417.2	412.9
Minority interest	2.5	2.0	2.0	2.0
<b>Total liabilities &amp; equity</b>	<b>785.9</b>	<b>801.2</b>	<b>807.2</b>	<b>808.0</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	43.6	41.1	40.4	41.0
Pre-tax profit	28.8	27.8	28.0	28.5
Deprec. & amort.	(1.7)	(1.8)	(1.8)	(1.8)
Working capital changes	7.5	2.5	0.3	0.1
Non-cash items	3.3	2.4	3.1	3.1
Other operating cashflows	5.7	10.2	10.8	11.1
Investing	(9.8)	(16.0)	(4.5)	(4.5)
Capex (growth)	(47.6)	0.0	0.0	0.0
Capex (maintenance)	(6.2)	(16.0)	(4.5)	(4.5)
Proceeds from sale of assets	43.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(32.8)	(22.5)	(34.4)	(40.1)
Distribution to unitholders	(21.4)	(28.2)	(28.9)	(29.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	3.4	20.7	10.0	5.0
Others/interest paid	(14.7)	(15.0)	(15.6)	(15.8)
Net cash inflow (outflow)	1.0	2.6	1.4	(3.7)
Beginning cash & cash equivalent	11.2	12.2	14.8	16.2
Ending cash & cash equivalent	12.2	14.8	16.2	12.6

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	64.3	65.2	63.0	65.3
Pre-tax margin	46.9	42.5	40.2	42.6
Net margin	41.6	38.0	35.6	38.0
ROA	3.7	3.4	3.3	3.5
ROE	6.7	6.4	6.2	6.8
<b>Growth</b>				
Turnover	22.2	5.9	3.0	1.4
EBITDA	17.6	7.4	(0.5)	5.1
Pre-tax profit	(40.9)	(3.9)	(2.6)	7.4
Net profit	(39.2)	(3.1)	(3.6)	8.4
Net profit (adj.)	9.8	(2.2)	(3.6)	8.4
EPU	3.1	(3.0)	(4.4)	7.5
<b>Leverage</b>				
Debt to total capital	42.4	44.2	45.1	45.8
Debt to equity	73.9	79.5	82.7	84.8
Net debt/(cash) to equity	71.1	76.0	78.8	81.7
Interest cover (x)	3.6	2.9	2.8	2.9

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