proactive
UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

Supermarket Income Reit PLC

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Supermarket Income REIT shapes up perfectly as a SIPP stock

Just when sentiment about the big four supermarket chains seemed to be turning up, the CMA has thrown a spanner in the works.

The Competition Authority's strong objections to Sainsbury's and Asda's merger might yet be overcome, but the likelihood is that it will either be blocked or a raft of stores come up for sale.

WATCH: 'Rapid growth' of Supermarket Income REIT continues after £45mln raise and acquisition
Supermarket Income Reit PLC (LON:SUPR) will be watching closely whatever the outcome.

Set up two years ago, the trust specialises in copper-bottomed supermarket assets and a stream of new stores becoming available would certainly be of interest.

Whether the REIT would buy any is a different matter entirely, however.

At present, the portfolio comprises just six stores - four occupied by Tesco and one each by Sainsbury's and Morrison's.

As that small number implies, the criteria applied to any potential acquisition is demanding.

Steve Windsor and Ben Green at Atrato Capital, the trust's adviser, says stores must be large and crucially omnichannel.

That means as well as shoppers in person, there is scope for the store to be the source for online grocery deliveries in the immediate area.

Market yet to understand online grocery
Grocery is the key word here.

They believe the market has failed to grasp the mechanics of online grocery shopping.

It is different from other forms of online retail.

"People don't understand the model - it is using physical stores in an omnichannel capacity.

Amazon is doing it with Wholefoods, while Chinese online giant Alibaba's Hema stores are sweeping through China.

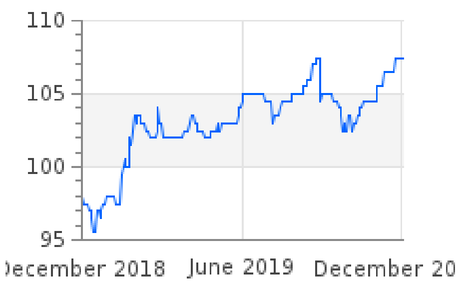
"They are sites (like ours) with capacity for home delivery. A store has to offer click and collect."

Location is another key factor. Around 74% of all UK grocery deliveries in the UK are fulfilled from a store rather than a 'shed'.

Price: 107.5

Market Cap: £363.21 m

1 Year Share Price Graph



Share Information

Code:		SUPR
Listing:		LSE
52 week	**High**	**Low**
	108	**94.8575**
Sector:		**Real Estate**
Website:		**www.supermarketincomereit.com**

Company Synopsis:
Supermarket Income REIT plc (SUPR) is a real estate investment trust dedicated to investing in supermarket property forming a key part of the future model of UK grocery. We acquire omnichannel supermarkets which operate both as physical supermarkets and as online fulfilment centres.

action@proactiveinvestors.com

 "People won't drive more than 15 mins to get groceries, but if you can make deliveries out of the same properties you can fulfil the true omnichannel capability."

Another stand-out feature of Supermarket Income is the length of its leases and their inflation-proofing.

Inflation-linkage
The average is 19 years with upward only rent reviews linked to the RPI-index.

This year, for example, a rent review at Tesco's store at Lime Trees in Bristol resulted in an RPI-linked rent increase of 3.2%.

Two other properties renewed in 2018 saw similar increases.

Annual rental income for the portfolio on a rolling basis is now is £16.5mln, while the six properties are valued at £320.7mln after a like-for-like uptick of around 1.3% over the past year.

Windsor and Green see scope for the portfolio to expand in size to £1bn over the medium-term.

Out of a pool of £20bn supermarket properties not owned by the retailer, about half meet its selection criteria with acquiring 10% of those seen as a reasonable objective.

All stores acquired so far are in or close to the top 25% of performers in the UK while one, Sainsbury's store in Ashford, is one of the country's best, believe Windsor and Green.

Top performing stores
The REIT has added a new store every six months over the past year and a half, with a Morrison's in Sheffield the last acquisition in July at a cost of £51.7mln.

Net debt at the year-end was £138mln with a loan to value ratio of 43%.

That means financially the group is fully invested and if another store becomes available Supermarket Income will raise money to help pay for it.

Again, the speed it can act plays to its advantage.

 "Once we find a good store, we carry out due diligence and come to market to ask for money.

"That enables us to invest very quickly with the money deployed in six weeks on average."

Earnings covered 93% of the 2018 dividend, which rose by 3.2% or the same as the last three rent reviews on the portfolio.

At a price of 103p, the yield currently is 5.3% and the premium to underlying (EPRA) NAV around 7%.

High-quality tenants and long leases
Given the quality of the tenant base, the long life and inflation-linked leases and stability offered by the grocery sector, that premium seems well-justified.

UK spending on grocery products has risen each year since 1999 according to retail analyst IGD and is forecast to grow by 15% over the next five years.

Wealth managers have already recognised the potential and account for a third of the shareholder base through both discretionary and advisory funds.

"Long -dated secured cashflows, secured by property with big household names and a large dividend linked to inflation make a very nice wealth management product."

It's a combination that also seems ideal for self-invested pensions, though at present Supermarket Income remains more of an institutional secret.

As it gets larger, that should change.

That secure dividend and cash flow would seemingly nominate Supermarket Income as one of the first names on the list for anyone setting up their own portfolio.

In fact, the only thing Windsor and Green might consider changing is the name.

Supermarket Income REIT is fine, but "Last Mile Grocery Logistics" better reflects the way the market is changing.