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Supermarket Income Reit PLC

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Supermarket Income REIT aims for bond-like yield on 'future proofed' model

- Supermarket Income REIT buys larger supermarkets on long leases
- Offers bond-like yields as rents secured on property and linked to inflation
- Future-proofed focus on supermarkets' omni-channel model

What does Supermarket Income REIT do?
Supermarket Income Reit PLC (LON:SUPR) is an investment trust that specialises in the supermarket freehold and long-leasehold property.

Set up two years ago and listed on London's main market, Supermarket Income's current portfolio comprises seven stores - five occupied by Tesco and one each by Sainsbury's and Morrison's. Asda properties are among the potential pipeline.

The company was set up by an ex-Goldman Sachs pair, Ben Green and Steve Windsor, who used to work with supermarkets to sell and lease back stores, carrying out several billion pounds worth of deals over the years.

With the advent of IFRS accounting rules, meaning that assets that supermarkets had been able to class as off their balance sheet now were being classed on their balance sheet, Green and Windsor saw a consolidation role would be profitable.

They set up Atrato Capital, which is the trust's adviser and since March has counted ex-Sainsbury's chief executive Justin King as a senior investment advisor.

How does the trust work?
Purchases are made only of supermarket property with long unexpired lease terms, with a targeted average lease term of more than 15 years, leased only to the UK's big four supermarkets on upward only rental contracts to provide investors with income security and considerable inflation protection.

Investments may in future be made in assets let to other supermarket operators such as Aldi, Lidl, Marks & Spencer or Waitrose.

Raising new money for investments is done each time an investment is identified, with £100mln raised on IPO in summer 2017, followed by £30mln later that year, £75mln last year and £45mln in March this year.

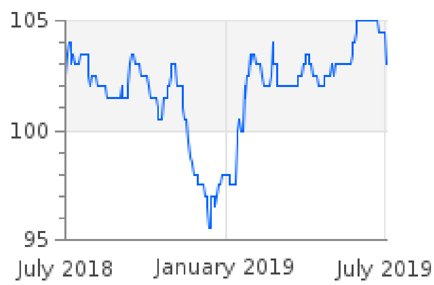
This month a 12-month extension was agreed for the maturity date on the £100mln revolving credit facility with HSBC to 30 August 2021, with unchanged terms.

Future-proof model
While the supermarket sector has hardly been having the easiest of times in recent year, with German discounters Aldi and Lidl storming the castle, the industry is not going anywhere.

Price: 103p

Market Cap: £247.03M

1 Year Share Price Graph



Share Information

Code:		SUPR
Listing:		LSE
52 week	**High**	**Low**
	106.00p	**94.86p**
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.

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Furthermore, one of the many boxes that supermarket properties need to tick in order to make it into the trust's portfolio is that they need to be "future-proof", that is they must be larger stores operating both as a physical supermarkets and as a fulfilment centre for the supermarket's online grocery operations.

This is because Green and Windsor see the store-pick model of online grocery as the only truly viable option for the industry in the short, medium and long term.

"Online grocery is very different from general retail," says Green. "Operationally its very complicated to do a the customer needs one-hour slots, the trucks need to maintain three different temperature zones.

"Most importantly is distance. Apart from in London, the model requires the companies to use existing physical stores in an omnichannel capacity, for their proximity to the customer, via click-and-collect or for store-picked deliveries."

Indeed, this is why Amazon snaffled Wholefoods and why Chinese online giant Alibaba's Hema stores are sweeping through China.

What's the investment case?

- With seven properties the Supermarket Income REIT portfolio is valued at £366mln, with total passing rent of £19.2mln.
- The trust declared dividends of 2.8p per share in the last reported half-year to 31 December and said it was on track to deliver a full-year target of 5.63p per share, nudging that up to 5.68p per share for the next twelve months.
- The cost of debt is currently at 2.5% with a net loan to value ration of the portfolio was 43% as at 31 December 2018, versus a medium-term target of 45% dropping to below 40% in the long term.
- Based on the forecast dividend of 5.63p for the current year, and the properties on inflation-linked rents, a share price of 105.12p equates to a dividend yield of 5.4% with bond-like properties.
- Windsor says: "The biggest catalyst for a yield shift if the re-rating of Tesco's balance sheet."
- Credit rating agency Moody's moved its rating on Tesco back to investment grade in June, following Fitch and with S&P expected to join in too.