EDISON

Supermarket Income REIT

Interim results

Strong progress in H120

Real estate

Supermarket Income REIT (SUPR) delivered strong growth in H120 driven by acquisitions, rental uplifts and valuation growth, and remains on track to deliver increased annualised DPS of 5.8p per share for the year (+3%). The EPRA NAV total return during H120 was 3.8% (an annualised 7.7%) and the shareholder total return (share price movement plus DPS paid) was 7%, taking the total shareholder return since IPO to 24%.

Continuing income and valuation growth

All key financial metrics increased strongly during H120, driven by acquisitions and underlying income and valuation growth. Two assets were acquired in the period, taking the total to nine, externally valued at £490.4m with a net initial yield of 5.0%. A tenth asset has since been acquired for £34m reflected in a net initial yield of 5.5%. All are on let on long leases (a weighted average unexpired lease term of 18 years) with upwards only RPI-linked rent reviews. The four rent reviews completed in the period generated an average 2.7% uplift, driving like-for-like revaluation gains across the portfolio of 1.6%. Including the impact of acquisitions, net rental income grew 44% year on year to £11.9m and EPRA earnings by 53% to £7.2m. Despite lower leverage (LTV 32.4%) and an increased number of shares in issue, EPRA EPS was flat at c 2.5p and EPRA NAV per share was 97p.

Targeted investment in future proof assets

SUPR is building a diversified portfolio of UK supermarket assets, with long leases and upwards only RPI-linked rents, let to quality tenant covenants. It predominantly targets omnichannel stores (combining in-store and online fulfilment) that can benefit from both the expected growth of grocery sales and the increasing popularity of online, in strong locations, with asset management potential. RPI-linked rent uplifts, strong tenant covenants and long lease lengths provide secure income growth prospects and good potential for capital growth. A newly formed strategic partnership with EVO Energy promises to improve the environmental sustainability of the portfolio while also generating incremental income and enhancing long-term valuations. With moderate gearing and £25m of undrawn borrowing facilities, the company is well placed for further accretive acquisitions.

Valuation: Attractive, growing yield potential

Despite an increasing share price, the prospective yield remains attractive at 5.4% with visible potential for growth. Compared with a group of other long income-focused REITs, SUPR offers an above-average yield with a lower than average P/NAV.

Consensus estimates

Year end	Revenue (£m)	EPRA EPS (p)	EPRA NAV/ share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/18	8.9	3.78	96	5.50	1.12	5.1
06/19	17.2	5.02	97	5.63	1.11	5.2
06/20e	25.5	5.70	99	5.80	1.09	5.4
06/21e	28.5	6.35	102	5.95	1.06	5.5

Source: Supermarket Income REIT data, Refinitiv, Edison Investment Research. Note: *EPRA EPS is normalised, excluding gains on revaluation.

24 February 2020

Price	**107p**
Market cap	**£363m**
Net balance sheet debt (£m) at 31 December 2019	158.7
Net LTV at 31 December 2019	32.4%
Shares in issue	337.9m
Free float	99%
Code	SUPR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.0	0.9	4.4
Rel (local)	2.2	(2.2)	(0.7)
52-week high/low		109.5p	102.0p

Business description

Supermarket Income REIT, listed on the special funds segment of the London Stock Exchange, invests in supermarket property, let to leading UK supermarket operators, on long, RPI-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

FY20 year-end	30 June 2020
FY20 results	Expected September 2020

Analysts

Martyn King	+44 (0)20 3077 5745
Andrew Mitchell	+44 (0)20 3681 2500

financials@edisongroup.com

Edison profile page

Supermarket Income REIT is a research client of Edison Investment Research Limited

EDISON

Visible income and growth potential

Supermarket Income REIT (SUPR), which is listed on the special funds segment of the London Stock Exchange, invests in a diversified portfolio of supermarket property, let to leading UK supermarket operators on long, RPI-linked leases. The investment objective is to provide an attractive level of income, with the potential for capital growth and a 7–10% pa total shareholder return target over the medium term. Aggregate shareholder total returns since IPO in July 2017 until 31 December 2019 were 24%.

Supermarket property has a long record of positive total returns underpinned by stable income returns in part due to the long length of lease commitments, upwards only rent reviews and a strong occupier covenant. SUPR invests in omnichannel stores, which it believes are the future model of grocery retail in the UK. These omnichannel stores operate both as physical supermarkets and as online fulfilment centres and as a result perform a critical role in the business strategies of the tenant operators.

The company has an independent board of non-executive directors and has appointed Atrato Capital as investment adviser. The Atrato management team brings a very high level of experience and knowledge of the UK real estate sector, having advised on, structured and executed more than £4.5bn of supermarket transactions (including c £500m for SUPR) over the past decade.

Strong progress in H120

The six months ended 31 December 2019 (H120) was another busy period for the company and the financial results showed strong growth in all metrics reflecting the continuing growth of the portfolio. Two additional omnichannel supermarkets were acquired during the period for £114.8m (before acquisition costs). The acquisitions added £6.4m to contracted rental income, reflected in a blended net initial yield of 5.2%, above the existing portfolio average. The portfolio now consists of nine supermarkets let on fully repairing and insuring leases, with upwards only, RPI-linked rent reviews.

With the company tracking further extensive acquisition opportunities, £100m in additional equity was raised in October 2019 and a new £76.6m five-year debt facility was added, attractively priced at a fixed 1.9%. The equity issue, at a 5% premium to the end-FY19 NAV, was well received and was oversubscribed despite being upsized from the initial £50m target.

The period also saw a new strategic partnership agreed between the investment adviser and EVO Energy, a leading UK renewable energy company, aimed at evaluating and executing projects that will reduce the environmental impact of the portfolio. In this respect, terms were agreed with Tesco for a solar rooftop installation at the Thetford store, the first of several planned across the portfolio.

Since reporting the interim results, SUPR has acquired a tenth supermarket store for £34.0m (excluding acquisition costs) reflecting a net initial yield of 5.5% or 6.3% including an adjoining Homebase store. It has also confirmed that in partnership with a large institutional investor it is in discussions to acquire a minority stake in a portfolio of 26 supermarkets let to Sainsbury's. The company notes that there is no certainty as to whether the acquisition will be agreed, nor the terms on which such a transaction may take place. Both of these developments are discussed further below.

Exhibit 1: Summary of H120 results

£m unless stated otherwise	H120	H119	H120/H119	FY19
Total rental income	11.9	8.3	44%	17.2
Administrative & other expenses	(2.3)	(1.5)	49%	(3.1)
Operating profit before investment property change in fair value	9.6	6.8	42%	14.1
Net finance expense	(2.5)	(2.1)	19%	(4.2)
EPRA earnings before tax	7.2	4.7	53%	10.0
Tax	0.0	0.0		(.0)
EPRA earnings	**7.2**	**4.7**	**53%**	**9.9**
Change in fair value of investment properties	0.6	0.8	-30%	.6
IFRS earnings	**7.8**	**5.5**	**41%**	**10.6**
Basic & diluted IFRS EPS (p)	2.72	2.99		5.35
EPRA & diluted EPS (p)	**2.52**	**2.56**		**5.02**
DPS (p)	**2.88**	**2.79**		**5.63**
Dividend cover*	90%	93%		92%
Investment properties	490.4	320.7		368.2
Net assets	328.0	176.9		230.5
EPRA NAV per share (p)	**97**	**96**		**97**
Net balance sheet debt	(158.7)	(137.8)		(133.8)
LTV	32.4%	43.0%		36.3%

Source: Supermarket Income REIT. Note: *Dividend cover calculated as total EPRA earnings in period as a percentage of total dividends paid.

The key financial highlights of the H120 results were:

- The end-H120 annualised rent roll had increased to £26.1m and the external portfolio valuation of £490.4m reflected a net initial yield of 5.0%. The weighted average unexpired lease term was broadly unchanged at 18 years. The average increase on rent reviews in the period was 2.7%.

Exhibit 2: Portfolio summary

	H120	H119	FY19
Number of properties	9	6	7
Valuation (£m)	£490.4m	£320.7m	£368.2
Annualised rent roll (£m)	£26.1m	£16.5m	£19.2m
Weighted average unexpired lease term	18 years	19 years	18 years
Net initial yield	5.0%	4.9%	4.9%

Source: Supermarket Income REIT

- Rental income in H120 increased by 44% to £11.9m, of which acquisitions contributed £3.2m in addition to RPI-linked rent growth. Recent acquisitions are yet to fully contribute, providing income momentum into H220 in addition to further rent review uplifts.
- Administrative and other expenses, which include management and advisory fees and other company running costs, increased to £2.3m. Although the EPRA cost ratio (adjusted for £143k of non-capitalised acquisition expense) edged up to 17.7% (H119: 17.0% and FY19: 17.9%), it remains low within the REIT sector as a whole and should decline further with future planned portfolio acquisitions.
- Net finance expenses increased with borrowings, utilised to part fund portfolio additions, but benefited from a reduction in the average cost of debt. Gross drawn debt increased to £166.4m (£168.2m including unamortised loan arrangement fees), with a current average cost of 2.2% (H119: 2.5%). Net debt (excluding unamortised loan arrangement fees) was £158.7m and the loan to value ratio (LTV) was 32.4% (end-H119: 43.0% and end-FY19: 36.3%).
- EPRA earnings increased by 53% to £7.2m and despite lower leverage and the increased number of shares in issue, EPRA EPS was flat at c 2.5p.

- The two quarterly dividends declared in H120 amount to 2.88p per share, including an increased second quarterly DPS of 1.46p (up 2.8% in line with inflation). The company is therefore on track to pay aggregate DPS for the year of 5.8p per share. EPRA DPS cover was 89% during H120 (H119: 91%).
- The £122.2m increase in the value of the portfolio during H120 compared with end-FY19 substantially reflects the two acquisitions in the period (£114.8m before costs). The gross like-for-like revaluation gain was £7.4m, or 1.6%, reflected the underlying rental growth and more than offset property acquisition costs written off of £6.5m. IFRS earnings and NAV benefited by a net £557k. The blended portfolio net initial yield (NIY) increased slightly to 5.0% (end-FY19: 4.9%), mainly as a result of the acquisitions (blended yield of 5.2%).

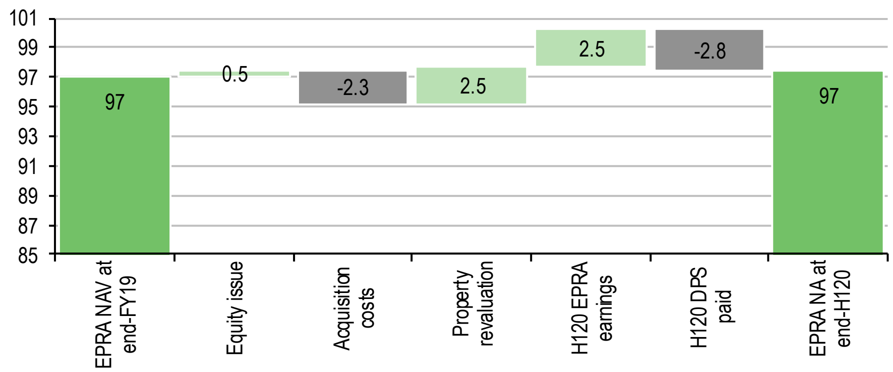
Exhibit 3: Gross and net revaluation gains

£000s	H120	H119	FY19
Gross revaluation	7,380	4,050	6,630
Acquisition costs written off	(6,510)	(3,071)	(5,617)
Net revaluation	870	979	1,013
Rent smoothing adjustment	(313)	(187)	(366)
Fair value movement recognised in P&L	557	792	647
Like for like revaluation movement	1.6%	1.3%	1.3%

Source: Supermarket Income REIT

- The October issue of c 98m new shares (c 40% of the number of shares previously outstanding) at 102p, a c 5% premium to the end-FY19 EPRA NAV per share, was accretive to H120 NAV per share by c 0.5p. EPRA earnings were slightly below dividends paid, while gross revaluation gains were more than offset by acquisition costs. As a result, EPRA NAV per share was unchanged compared with end-FY19 at 97p per share. Including DPS paid, the EPRA NAV total return during the half-year was 3.8% (an annualised 7.7%).

Exhibit 4: EPRA NAV bridge (in pence per share)



Source: Supermarket income REIT

Focused investment policy

Exhibit 5 shows SUPR's portfolio in more detail, including the stores in Preston, Lancashire, and Cheltenham, Gloucestershire, acquired during H120 and the Hessle store subsequently acquired. The key to income growth visibility is the selection of properties with RPI-linked rental uplifts and let on long unexpired lease terms to institutional grade tenants, although this is reinforced by a highly selective investment strategy that additionally focuses on:

- **Supermarkets fulfilling online delivery.** With dedicated online only fulfilment centres only really making commercial sense around high population density London, the major operators have built a network of omnichannel stores combining supermarkets (the dominant channel) with online (the fastest growing channel). SUPR expects continued online growth and predominantly targets omnichannel stores.

- **Strong trading stores**. SUPR targets strongly performing stores with a proven trading record, identified using the knowledge and experience of the investment adviser.
- **Large flexible sites**. Good transportation links, a low site cover, with significant non-sales space provides opportunities to benefit from future **asset management opportunities** and may offer good potential for alternative use over the longer term.

Exhibit 5: Overview of portfolio – including post H120 acquisition.

Tenant	Sainsbury's	Tesco	Tesco	Tesco	Tesco	Morrisons	Tesco	Sainsbury's	Sainsbury's	Sainsbury's
Store	Ashford	Thetford	Bristol	Cumbernauld	Scunthorpe	Sheffield	Mansfield	Preston	Cheltenham	Hessle
Acquisition date	Aug-17	Aug-17	Aug-17	Dec-17	May-18	Jul-18	Apr-19	Aug-19	Oct-19	Feb-20
Purchase price	£79.8m	£43.2m	£28.5m	£50.0m	£53.0m	£51.7m	£45.0m	£54.4m	£60.4m	£34.0m
Valuation at end-H120	£86.5m	£42.8m	£28.8m	£57.9m	£57.2m	£53.5m	£47.6m	£56.0m	£60.4m	N/A
Passing rent	£4.04m	£2.72m	£1.58m	£3.03m	£2.98m	£2.87m	£2.51m	£2.96m	£3.39m	£2.31m
Size (sq. ft.)	125,000	78,000	55,000	117,000	98,000	113,000	90,000	106,000	99,000	N/A
Net sales area (sq. ft.)	71,732	47,800	30,699	69,923	64,678	58,108	64,000	78,000	62,000	71,000
Rent review basis	Annual RPI	Annual RPI	Annual RPI	Annual RPI	Annual RPI	5 yearly RPI	Annual RPI	Annual RPI	5 yearly RPI	Annual RPI
Lease expiry	Sep-38	Dec-29	Mar-31	Aug-40	Aug-40	Oct-39	Mar-39	Feb-42	Jun-32	Jun-34*

Source: Supermarket Income REIT. Note: *Lease expiry date is for Hessle supermarket. The Homebase lease expires June 2024.

The growing portfolio is becoming increasingly diversified by asset and by geographic location. The properties are currently let to Tesco (48%), Sainsbury's (41%) and Morrisons (11%), all good quality covenants. Tesco's and Morrisons' corporate debt is rated investment grade and Sainsbury's has a target to achieve this by 2022.

Q320 acquisition of Sainsbury's store in Hessle

The prominent 13-acre site acquired for £34.0m (excluding acquisition costs) comprises a 50,000 sq ft supermarket store with 12-pump petrol filling station and nearly 600 car parking spaces, as well as an adjoining Homebase store with a net sales area of 21,000 sq ft.

The supermarket store is let to Sainsbury's, which has a long history of trading from the site, has been acquired with an unexpired lease term of 14 years with annual, upwards-only, RPI-linked rent reviews (subject to a cap and floor). It has purpose-built online fulfilment docks and supports Sainsbury's online fulfilment for the surrounding area. The supermarket passing rent is c £2.0m pa, which represents an attractive net initial yield of 5.5% on the site without attaching any value at all to the Homebase store.

The Homebase store has an unexpired lease term of four years and generates c £0.3m pa in passing rent. Sainsbury's has guaranteed this rent for the duration of the lease. Consequently, the combined total net initial yield on the purchase is 6.3% for the next three years, with good asset management potential thereafter.

The acquisition was funded by drawing on available revolving credit facilities.

Financing and future acquisition-led growth

The H120 acquisitions were financed from the proceeds of the October 2019 share placing (£100m gross) and drawings from the new bank facility arranged during the period. The new £76.6m five-year debt facility with Deka Bank arranged in August 2019 carries a low fixed interest rate of 1.9%, broadened the company's banking relationships and extended average maturity.

SUPR now has £228.7m of debt facilities comprising a £100m revolving credit facility (RCF) with HSBC, and a five-year interest only loan with Bayerische Landesbank in addition to the new Deka

Bank facility. Undrawn facilities at the end of H120 were £60.5m and following the Hessle acquisition £25m remains available to fund continuing investment.

Additionally, SUPR is in discussion with several potential lenders on refinancing and upsizing the £100m HSBC RCF on substantially the same terms but increasing the duration to five to seven years. The effect of this would be to increase the weighted average debt duration to between four to six years (currently a little over three years) and provide significant financial flexibility to support future growth.

Exhibit 6: Debt portfolio summary as at 31 December 2019 (end-H120)

Lender	Facility	Maturity	Interest rate	Facility size (£m)	Amount drawn (£m)
HSBC	Revolving credit facility	Aug-21	Libor +1.6%	100.0	39.5
Bayerische Landesbank	Term Loan	Jul-23	Fixed with swap at 2.55%	52.1	52.1
Deka Bank	Term Loan	Aug-24	Fixed with swap at 1.90%	76.6	76.6
Total			**2.2%**	**228.7**	**168.2**

Source: Supermarket Income REIT

SUPR has negotiated significant headroom on its debt covenants with a maximum 60% LTV and minimum 200% interest cover ratio compared with 32.4% and 615%, respectively, in H120.

The investment adviser estimates that from a pool of c £20bn of supermarket properties that are not owned directly by operators, c £10bn meet SUPR's strict selection criteria and that a portfolio value of c £1bn is a reasonable objective over the long term, or a c 10% share of its target asset pool. Investor interest in supermarket property has increased competition for assets, but the company says that it continues to closely track an extensive pipeline of potential longer-term opportunities.

Potential minority stake in portfolio

SUPR confirmed the discussions regarding the possibility of it taking a minority stake in a portfolio of 26 supermarkets let to Sainsbury's in response to press comment. The press reports have suggested that SUPR may enter a joint venture with a view to purchasing British Land's 26% stake in the portfolio, which could be worth £105m. The portfolio is fully geared through a securitisation with the portfolio income being used to service and pay down debt. Lease expiry and debt repayment should occur in 2023 and ahead of that we would expect the leases to be renewed or assets sold. Should the transaction go ahead, it would enable SUPR to benefit from a potential lease renewal or gain access to a valuable pipeline of assets which we believe share similar characteristics to its current portfolio.

EVO partnership boosts asset management opportunity

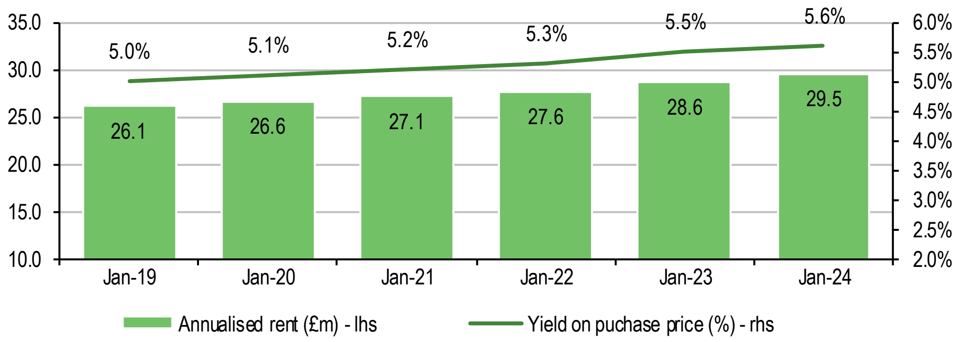
The newly formed strategic sustainability partnership between the investment manager, Atrato, and EVO Energy will evaluate, execute and manage a range of projects across the portfolio aimed at reducing carbon emissions. This will provide support for SUPR's environment, social and corporate governance (ESG) policy and will be in step with similar policies adopted by the operator tenants, including their efforts to reach carbon neutrality by 2050. The company has agreed terms with Tesco for the installation of a 370 kilowatt rooftop solar array at the Thetford store, which will provide c 310k kw per hour of carbon free electricity. The required investment will improve the environmental sustainability of the site while also generating an additional incremental income stream and enhancing the long-term capital value of the site. The company hopes to install similar decarbonised energy producing plant across the estate over the medium term, representing an investment of c £3–5m.

Contractual RPI rent increases provide visibility

To better illustrate the potential impact of contractual RPI rent uplifts on rental income growth, SUPR has provided the data in Exhibit 7, which assumes an annual RPI change of 2.5%. Obviously RPI may differ from this level, but we believe this to be a reasonable assumption and consistent with current experience.

With the illustrated growth in rents, the yield on property purchase values also increases. However, if we assume no change in property valuation yields, the external market valuations of the properties would be expected to increase further. We estimate that applying an unchanged 5.0% yield to the illustrated FY24 rental income would add c £65m to the portfolio valuation at that point, or c 29p per share. As we discuss below, the investment manager continues to believe there is a strong potential for yields to tighten to below current levels.

Exhibit 7: Illustrated impact of contracted RPI uplifts on rental growth



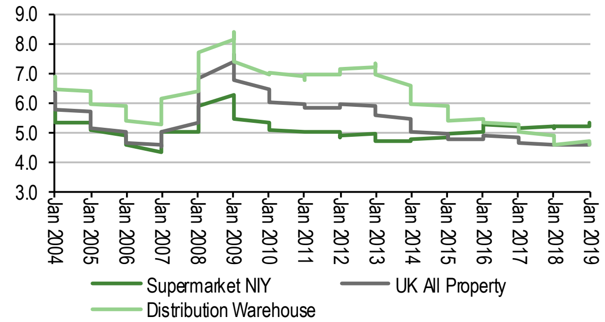
Source: Supermarket Income REIT. Note: Assumed annual RPI uplift of 2.5%.

There is potential for yields to positively tighten

In addition to the potential for property valuations to increase with rental growth at unchanged yields, the investment adviser highlights the scope for supermarket property yields to reduce, relative to other classes of commercial property potentially in absolute terms, which would have a positive effect on supermarket property valuations.

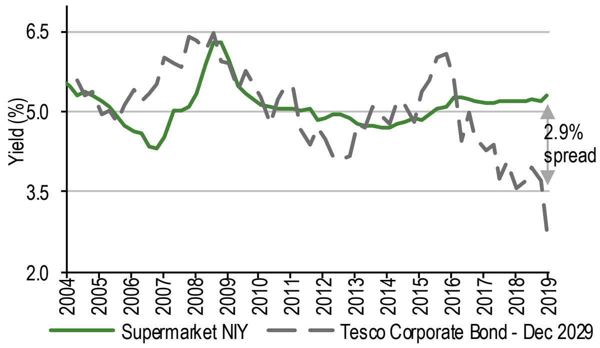
Supermarket property has historically been priced at yields below the UK all-property sector; however, this has not been the case since c 2015 (see Exhibit 8). Supermarket property yields have increased in recent years, even as the broader UK commercial property market and the distribution warehouse subsector have seen yields decline. The period of yield widening for supermarket property obviously corresponds to a period of intense competition among the supermarket operators, against a background of continuing growth in online retail and its transformational impact on traditional retail distribution. However, unlike some of the pressures being felt elsewhere in the retail sector, UK consumer spending on grocery products has grown each year since 1999 and is forecast by IGD Retail Analysis to grow by a further 12% over the next five years, from £194bn in 2019 to £217bn in 2024. Online sales (currently around 6% of the total) are expected to take an increasing share, but the majority (74%) of online grocery orders are fulfilled from within supermarkets rather than from dedicated online fulfilment centres, with the major operators operating a network of omnichannel stores, combining traditional supermarkets (still the dominant channel by far, and growing) with online (the fastest-growing channel). Given the capex required, dedicated online-only facilities are viable only in areas of high population density and the big four operators continue to leverage their store networks to support last mile logistics for online grocery. The resultant growth in e-commerce sales in such locations does not appear to be fully reflected in the investment market and valuations as evidenced by the widened gap between supermarket and distribution warehouse yields. Viewed alongside the decoupling of supermarket yields from corporate bonds despite the financial strength of the tenant operators, as well as the maturity of the overall commercial property and economic growth cycles, the investment manager continues to believe that the investment prospects for the supermarket operators remain favourable.

Exhibit 8: Supermarket property net initial yields



Source: Supermarket Income REIT, MSCI

Exhibit 9: Supermarket yields vs Tesco corporate bonds



Source: Supermarket Income REIT

Investor interest in the supermarket property sector picked up sharply in 2019 with investment volumes increasing c 70% to £1.8bn (source: Colliers). A number of institutional investors stepped up their activity in the sector, most notably Realty Income, which entered the UK market and accounted for 30% of the supermarket property volume, including the acquisition of 12 stores let to Sainsbury's. SUPR accounted for c 9% of the total volume while remaining disciplined in its strict asset selection and financial targets.

Returns and valuation

The 7–10% NAV total return targeted by SUPR is the product of rental income increasing with RPI, supporting dividend growth and, to the extent that property valuation yields do not change, NAV growth. Targeted returns also assume a benefit from gearing, which the company expects to be in the 30–40% range over the medium term and once the portfolio growth phase moderates.

SUPR has performed strong since IPO, deploying capital resources swiftly to reduce cash drag, acquiring well-performing assets, and benefiting from increased scale and diversification. Total shareholder return (the change in share price plus dividends paid) was 7% in H120, taking the cumulative total to 24% since IPO (dividends paid added back but not reinvested). With the shares re-rating to a c 10% premium to NAV, total shareholder return is ahead of total accounting return (the change in NAV per share plus dividends paid but not reinvested) since IPO, although the difference is more than accounted for by acquisition costs written off during the period as SUPR has built its portfolio (Exhibit 10).

Exhibit 10: Reported and underlying accounting (NAV) total return

Year to 30 June	FY18	FY19	H120	Since IPO
Opening NAV per share (p)	97*	96	97	97
Closing NAV per share (p)	96	97	97	97
DPS paid (p)	4.1	5.6	2.8	12.6
NAV total return	**3.2%**	**6.6%**	**3.8%**	**13.4%**
Adjust for property acquisition costs per share (p)	7.7	2.3	1.9	11.9
Underlying NAV total return	**11.1%**	**9.0%**	**5.8%**	**25.7%**

Source: Supermarket Income REIT data, Edison Investment Research. Note: *Adjusted for IPO issuance costs.

Based on consensus forecasts (Exhibit 11), SUPR shares trade on a prospective FY20 yield of 5.4% and a P/NAV of 1.1x. Consensus expectations point to growth of both DPS and NAV per share in FY21.

Exhibit 11: Consensus forecast summary

Year to 30 June	FY19	FY20e	FY21e
Revenue/rental income (£m)	17.2	25.5	28.5
EPRA EPS (p)	5.02	5.7	6.35
DPS (p)	5.63	5.80	5.95
EPRA NAV per share (p)	97	99	102
Yield	5.2%	5.4%	5.5%
P/NAV (x)	1.11	1.09	1.06

Source: Supermarket Income REIT data, Refinitiv, Edison Investment Research. As at date of report

In Exhibit 12 we show a comparison of SUPR with a group of other property companies that focus on income returns derived from long leases. Taken as a whole, the group trades at a P/NAV premium to the broad UK property market (which we estimate to have a P/NAV of c 0.9x on a trailing basis), which we believe primarily reflects a higher yield and a focus on stable long-term income. Compared to this narrow peer group, SUPR has a higher yield and lower P/NAV ratio. Its average unexpired lease term of 18 years is above the average for this group and its RPI-linked rent growth provides investors with considerable visibility of income with protection against inflation. We note the potential, discussed above, for yield tightening in the supermarket sector to lift NAV.

Exhibit 12: Summary of long lease REITS

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					One month	Three months	12 months	From 12M high
Assura	80	1935	1.50	3.4	2%	11%	36%	-4%
Impact Healthcare	108	344	1.02	5.7	-1%	0%	5%	-6%
MedicX Fund	136	709	1.14	4.2	0%	9%	12%	-3%
PHP	160	1945	1.48	3.6	1%	13%	33%	-2%
Secure Income	466	1504	1.11	3.6	1%	10%	17%	-2%
Target Healthcare	122	556	1.12	5.5	3%	5%	5%	-2%
Tritax Big Box	142	2429	0.95	4.8	0%	-6%	1%	-12%
Average			1.19	4.4	1%	6%	16%	-5%
Supermarket Income	108	363	1.11	5.4	0%	1%	4%	-2%
UK property index	1,915			3.6	-1%	5%	13%	-3%
FTSE All-Share Index	4,016			4.6	-5%	-1%	2%	-6%

Source: Historical company data, Refinitiv price data as at 22 February 2020. *Based on last published EPRA NAV. **Based on trailing 12-month DPS declared.

Exhibit 13: Financial summary

Year ended 30 June	2018	2019	H118	H218	H119	H219	H120
£000's							
INCOME STATEMENT							
Rent receivable	8,483	16,865	3,020	5,463	8,106	8,759	11,588
Rent smoothing adjustment	459	366	131	328	187	179	313
Total rental income	8,942	17,231	3,151	5,791	8,293	8,938	11,901
Administrative & other expenses	(2,097)	(3,088)	(965)	(1,132)	(1,517)	(1,571)	(2,254)
Operating profit before investment property change in fair value	6,845	14,143	2,186	4,659	6,776	7,367	9,647
Change in fair value of investment properties	(4,081)	647	(4,859)	778	792	(145)	557
Operating profit/(loss)	2,764	14,790	(2,673)	5,437	7,568	7,222	10,204
Net finance expense	(1,917)	(4,180)	(649)	(1,268)	(2,057)	(2,123)	(2,450)
Profit/(loss) before tax	847	10,610	(3,322)	4,169	5,511	5,099	7,754
Tax	(227)	(18)	(231)	4	0	(18)	0
Profit/(loss) for the period	620	10,592	(3,553)	4,173	5,511	5,081	7,754
Adjust for:							
Changes in fair value of investment property	4,081	(647)	4,859	(778)	(792)	145	(557)
EPRA earnings	4,701	9,945	1,306	3,395	4,719	5,226	7,197
Closing number of shares (m)	184.4	239.8	120.0	184.4	184.4	239.8	337.9
Average number of shares in issue (m)	124.2	198.1	105.5	142.9	184.4	211.8	285.4
IFRS EPS (p)	.5	5.3	(3.4)	2.9	3.0	2.4	2.7
EPRA EPS (p)	3.8	5.0	1.2	2.4	2.6	2.5	2.5
DPS declared (p)	5.500	5.632	2.750	2.750	2.794	2.838	2.879
EPRA earnings/dividends paid	103%	92%	95%	107%	93%	90%	90%
BALANCE SHEET							
Investment property	264,900	368,230	207,900	264,900	320,650	368,230	490,410
Other non-current assets	37	0	55	37	60	0	172
Total non-current assets	264,937	368,230	207,955	264,937	320,710	368,230	490,582
Trade & other receivables	1,035	3,521	104	1,035	98	3,521	5,981
Cash & equivalents	2,239	9,898	1,251	2,239	5,895	9,898	7,654
Total current assets	3,274	13,419	1,355	3,274	5,993	13,419	13,635
Deferred rental income	(1,666)	(3,543)	(1,188)	(1,666)	(3,221)	(3,543)	(5,314)
Current tax liabilities	(227)	(245)	(231)	(227)	(227)	(245)	0
Trade &other payables	(1,473)	(2,570)	(1,525)	(1,473)	(2,307)	(2,570)	(3,574)
Total current liabilities	(3,366)	(6,358)	(2,944)	(3,366)	(5,755)	(6,358)	(8,888)
Bank borrowings	(88,099)	(143,708)	(93,822)	(88,099)	(143,710)	(143,708)	(166,367)
Interest rate derivatives	0	(1,113)	0	0	(289)	(1,113)	(972)
Total non-current liabilities	(88,099)	(144,821)	(93,822)	(88,099)	(143,999)	(144,821)	(167,339)
Net assets	176,746	230,470	112,544	176,746	176,949	230,470	327,990
IFRS NAV per share (p)	96	96	94	96	96	96	97
EPRA NAV per share (p)	96	97	94	96	96	97	97
CASH FLOW							
Net cash from operations	8,061	13,914	3,877	4,184	9,633	4,279	8,936
Purchase of investment property	(254,540)	(85,450)	(201,540)	(53,000)	(51,700)	(33,750)	(114,800)
Capitalised acquisition costs	(14,113)	(5,617)	(10,660)	(3,453)	(3,071)	(2,546)	(6,510)
Net cash from investing activity	(268,653)	(91,067)	(212,200)	(56,453)	(54,771)	(36,296)	(121,310)
Share issuance (net of costs)	180,883	43,938	117,562	63,321	0	43,938	97,789
Debt drawn/(repaid)	88,844	56,050	94,743	(5,899)	56,050	0	23,331
Interest paid and other financing costs	(2,334)	(4,325)	(1,356)	(978)	(2,187)	(2,138)	(3,032)
Dividends paid	(4,562)	(10,850)	(1,375)	(3,187)	(5,070)	(5,780)	(7,958)
Net cash from financing activity	262,831	84,813	209,574	53,257	48,793	36,020	110,130
Change in cash	2,239	7,660	1,251	988	3,655	4,003	(2,244)
Opening cash	0	2,239	0	1,251	2,239	5,894	9,897
Closing cash	2,239	9,899	1,251	2,239	5,894	9,897	7,653
Debt as per balance sheet	(88,099)	(143,708)	(93,822)	(88,099)	(143,710)	(143,708)	(166,367)
Net debt	(85,860)	(133,809)	(92,571)	(85,860)	(137,816)	(133,811)	(158,714)
LTV	32.4%	36.3%	44.5%	32.4%	43.0%	36.3%	32.4%

Source: Supermarket Income REIT data

General disclaimer and copyright

This report has been commissioned by Supermarket Income REIT and prepared and issued by Edison, in consideration of a fee payable by Supermarket Income REIT. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.