Triple Point Social Housing REIT

FY20 results update

Delivering growth as expected

Real estate

The supported housing sector has proved resilient during the pandemic, providing an essential service, complementary to the NHS. This was reflected in Triple Point Social Housing REIT's (SOHO) strong FY20 performance. Full rent collection and continuing investment is bringing much-needed new supply to the sector. We expect acquisitions, rent indexation and development completions to drive further strong earnings growth, supporting a continuation of the progressive dividend policy.

Year end	Total income (£m)	Adj. earnings* (£m)	Adj. EPS* (p)	EPRA NTA per share (p)	DPS (p)	P/NAV (x)	Yield (%)
12/19	21.1	12.3	3.50	105.4	5.10	0.97	5.0
12/20	28.9	17.7	4.90	106.4	5.18	0.96	5.1
12/21e	33.9	21.8	5.41	108.8	5.28	0.94	5.2
12/22e	36.1	23.7	5.87	112.3	5.39	0.91	5.3

Note: *Adjusted earnings is a excludes property revaluation movements and amortisation of loan arrangement fees. There is no difference between basic and fully diluted EPS and NAV.

Available capital and strong pipeline

This note updates our January initiation note for the FY20 results. As expected, SOHO delivered strong growth in assets and earnings, supporting uninterrupted dividends. Adjusted earnings increased 44% and adjusted EPS by 40% to 4.9p with DPS of 5.18p (+1.7%). EPRA net tangible assets (NTA) per share increased by 1.0% to 106.4p and including DPS paid the EPRA NTA total return was 5.9%. On a look-through run-rate basis, DPS was fully covered by August, before October's £55m (gross) equity raise. The company intends to maintain its progressive dividend policy in the current year and we expect full cover by adjusted earnings on a reported basis as capital resources are deployed into a strong acquisition pipeline (opportunities in excess of £150m). Our forecasting assumptions are little changed, other than assuming forward-funded developments as well as completed assets within capital deployment. This defers earnings and cash flows slightly but adds attractive, purpose-built assets to the stock.

Positive outcomes driving demand

The chronic shortage of supported housing is widely forecast to increase, yet compared with the alternatives of residential care or hospitals, it improves lives in a cost-effective manner. It can also relieve pressures on the health service and at both the national and local level it is government policy to offer supported housing to more people. Private capital is crucial in meeting current and future needs, while the continued response of the lessee/approved providers to regulatory scrutiny, improving governance, operational performance and financial strength should be a positive factor for sustaining the security of contracted rents and long-term growth of the sector.

Valuation: Robust, attractive, growing income

The FY20 DPS of 5.18p represents a yield of 5.1%, with good prospects for indexed growth. Combined with robust rent collection, this is in our view attractive in a continuing low interest rate environment. The shares currently trade at slightly below NTA, in line with the average since IPO (c 0.96x) but below the peak (1.07x).

25 March 2021

Price	**102p**
Market cap	**£411m**
Net debt (£m) as at 31 December 2020	145.6
Gross gearing at 31 December 2020 (gross debt/gross assets)	31.5%
Shares in issue	402.8m
Free float	99%
Code	SOHO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(4.3)	(5.6)	16.4
Rel (local)	(5.0)	(8.9)	(9.6)
52-week high/low		114p	87p

Business description

Triple Point Social Housing REIT (SOHO) invests in primarily newly built and newly renovated social housing assets in the UK, with a particular focus on supported housing. The company aims to provide a stable, long-term inflation-linked income with the potential for capital growth.

Next events

FY21 half year-end	30 June 2021

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Triple Point Social Housing REIT is a research client of Edison Investment Research Limited

Investment summary

The FY20 results were in most respects slightly ahead of our forecasts, with strong, resilient growth driven by the expanding and increasingly diversified portfolio.

Exhibit 1: Summary of FY20 financial performance

£m unless stated otherwise	H120	H220	FY20	FY19	FY20/FY19	Edison FY20 forecast
Total income	13.4	15.6	28.9	21.1	37.0%	28.0
Total expenses	(3.1)	(3.5)	(6.6)	(6.0)	10.4%	(6.3)
Operating profit before revaluation of properties	**10.3**	**12.1**	**22.3**	**15.1**	**47.6%**	**21.7**
Change in fair value of investment properties	1.5	6.4	7.9	11.8		6.2
Operating profit	11.8	18.5	30.2	26.9		27.9
Net finance expense	(2.8)	(2.8)	(5.6)	(3.2)	74.6%	(5.6)
PBT & net profit	**9.0**	**15.6**	**24.6**	**23.7**		**22.3**
Adjusted for:						
Change in fair value of investment properties	(1.5)	(6.4)	(8.0)	(11.8)		(6.2)
EPRA earnings	**7.4**	**9.2**	**16.6**	**11.9**	**39.7%**	**16.1**
Interest capitalised on forward funded developments	(0.1)	(0.0)	(0.1)	(0.1)		(0.1)
Amortisation of loan arrangement fees	0.5	0.6	1.2	0.5		1.1
SOHO adjusted EPRA earnings	**7.9**	**9.8**	**17.7**	**12.3**	**43.6%**	**17.1**
Basic & diluted IFRS EPS (p)	2.55	4.21	6.82	6.75		6.16
Basic & diluted EPRA EPS (p)	2.12	2.48	4.61	3.39	35.9%	4.45
SOHO adjusted EPRA EPS (p)	**2.25**	**2.64**	**4.90**	**3.50**	**39.7%**	**4.73**
DPS (p)	**2.59**	**2.59**	**5.18**	**5.10**	**1.7%**	**5.18**
Dividend cover (adjusted earnings)	0.87	1.02	0.95	0.69		0.91
IFRS portfolio value	511.1	572.2	572.2	472.3	21.1%	580.3
Gross borrowings	(185.1)	(198.5)	(198.5)	(169.1)		(198.5)
Cash	43.5	53.7	53.7	67.7		48.4
Net assets	369.6	428.7	428.7	369.7		426.6
IFRS & EPRA NTA per share (p)	**105.3**	**106.4**	**106.4**	**105.4**	**1.0%**	**105.9**
Gross gearing (gross debt/gross assets)	33.1%	31.5%	31.5%	31.1%		31.3%
Net LTV (net debt/portfolio valuation)	27.8%	25.5%	25.4%	22.1%		25.9%

Source: SOHO historical data, Edison Investment Research FY20 forecast

In brief we note that:

- Total income increased by 37%, driven primarily by a partial contribution from acquisitions in the year and a full-year contribution from prior year acquisitions, forward-funding development completions and rent indexation (100% of the portfolio indexed to either RPI or CPI).
- Administrative expenses grew at a much slower pace of 10%. Investment management fees, representing almost two-thirds of the total and linked to net asset value, increased by 6.0%. Much of the asset growth was funded by debt drawdown, although the October 2020 equity raise lifted net asset value.
- Increasing operational gearing is reflected in the reduced EPRA cost ratio to 22.3% (FT19: 28.4%).
- Finance costs increased with debt drawdown but adjusted earnings increased by 44% to £17.7m and adjusted EPS by 40% to 4.9p. Reported dividend cover for the year increased to 95% (FY19: 69%), with full cover on a look-through run-rate basis in August, ahead of the equity raise.
- The net change in the fair value of investment properties was £7.9m. This included a gross gain on investment properties of c £10.8m (c 2.4% of the opening value) and a c £0.9m gain on development completions, partly offset by c £3.8m of acquisition costs written off.
- IFRS and EPRA NTA per share increased 1.0% to 106.4p.

Continuing strong, targeted portfolio growth

At 31 December 2020 (FY20) the SOHO portfolio was valued at £571.5m, a 7.7% uplift on total funds invested (including acquisition costs) of £503.7m, and reflecting a 5.27% IFRS valuation yield. At that date the portfolio comprised 445 properties with annualised contracted rents of £32.1m (excluding agreed rents on the forward funding schemes that remained under development). The properties were fully let to 20 different approved providers (mostly housing associations specialising in supported housing) that manage them to provide homes for more than 3,000 tenants, with care provided by 98 care providers. The weighted average unexpired lease term (WAULT) was a long 26.2 years with all the properties let on fully repairing and insuring leases (FRI leases, under which the lessee is responsible for the cost of property maintenance and insurance and property taxes) with upward-only, annual inflation-linked rent increases.

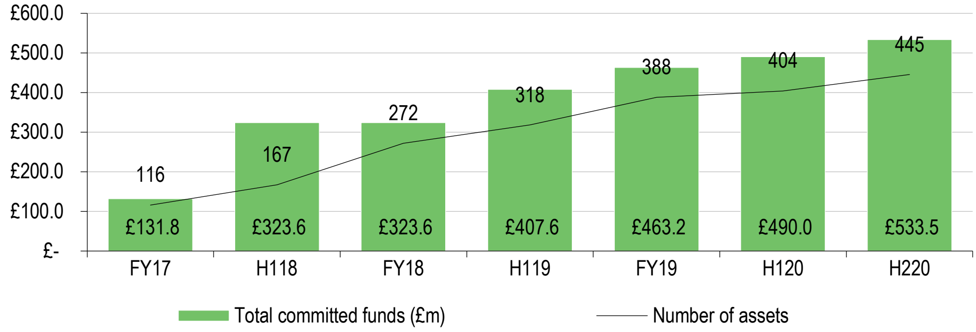
Exhibit 2: Portfolio summary

£m unless stated otherwise	FY20	FY19
	31-Dec-20	31-Dec-19
Capital deployed (inc. acquisition costs)	530.7	438.9
Portfolio value	571.5	471.6
Portfolio value uplift on capital deployed	7.7%	7.5%
Annualised rental income	31.6	25.4
Annualised rental income including forward funding developments in progress and exchanges)	32.1	27.8
Valuation net initial yield*	5.27%	5.27%
WAULT (years)	26.2	25.7
Number of properties	445	388
Number of units	3,124	2,728
Number of tenancies*	341	300
Number of approved providers*	20	16
Number of local authorities*	155	149
Number of care providers	98	88

Source: SOHO data. Note: *Calculated excluding forward-funded developments in progress.

The pandemic caused some initial delays in the deployment of funds during FY20, with the uncertainty of the initial lockdown having a particular impact on Q220. However, once the initial shock of the lockdown had passed and operating conditions stabilised, it once again became possible to acquire or develop properties. Supported housing commissioners continued referring residents wherever possible, to relieve pressure on the NHS, and local authorities continued to pay rent and care fees to providers to ensure the viability of essential services. During the year, 58 properties (400 units) were acquired for a total investment cost of £78.9m (including costs), with the majority in H220. Additionally, despite some temporary pandemic delays caused by labour and materials shortages, nine of the 22 forward funding projects that SOHO has entered into to date completed during the year (11 previously) with two remaining (outstanding commitment of £2.8m), both of which have now completed. So far in FY21, SOHO has announced the acquisition of eight supported housing properties (75 individual units) for an aggregate consideration of just under £15m before costs (the £2.9m acquisition includes costs and the £12.1m acquisition is before costs).

Exhibit 3: Continuing portfolio growth

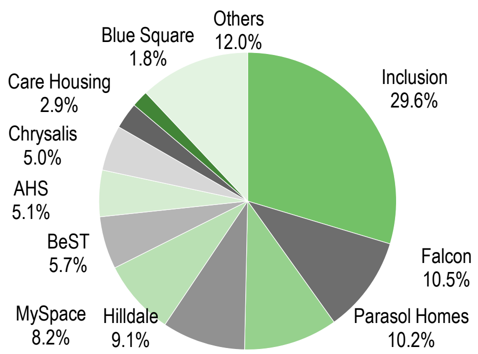


Source: SOHO data to end-FY20. Note: Total committed funds includes properties where contracts have been exchanged as well as outstanding forward-funded development commitments.

As the portfolio has grown, it has become increasingly diversified by property, region and approved provider. During FY20, a net four new approved providers were added including the removal of its exposure to Westmoreland, supporting its significant stock rationalisation programme as it seeks to meet the requirements of the Regulator of Social Housing (RSH). Of the 15 properties that had been leased to Westmoreland, 14 have been or are in the process of being transferred to existing approved provider tenants, and one smaller property disposed of. The completed transfers of 12 of the properties had no impact on the care provided to residents nor any material impact on valuations.

More generally, the RSH paused its ongoing review of the specialised supported housing sector for a time during 2020, allowing providers to focus on operations and on managing the challenges of the pandemic. Once the full lockdown had eased in the summer, regulatory engagement recommenced and this has been followed by several regulatory notices and judgements across the sector. In December 2020, MySpace became the fifth SOHO lessee subject of regulatory judgements or notice. Most recently, Hilldale Housing Association and Pivotal Housing Association have both been the subject of reviews by the RSH and in both cases have been deemed non-compliant with regard to elements of the regulator's governance and financial viability standards. SOHO welcomes this ongoing regulatory review, bringing as it does higher levels of accountability and transparency. The social housing sector has traditionally had a low financial risk profile, in part due to the ongoing monitoring presence of the regulator and the fact that much of the rent is funded by central government through housing benefit and latterly universal credit, directed towards some of the most vulnerable in society. With support from SOHO, the organisations affected by regulatory judgements and notices have shown tangible signs of improvement over the past year and it is important to note that there has been no impact on rent collection or negative impact on the external valuations of the properties owned by SOHO.

Exhibit 4: Rental income by approved provider

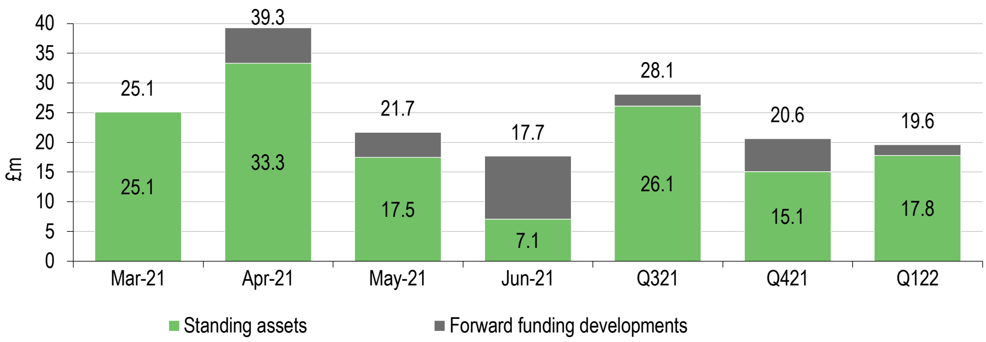


Source: SOHO data as at 31 December 2020. Note: 'Others' includes Sunnyvale 1.4%; Sandwell 1.3%; Wings Care 0.9%; IKE 0.8%; Lifeways 0.7%; Pivotal 0.7%; IHL 0.7%; Encircle Housing 0.6%; TBC 0.2%; Keys 0.2%; and Partners Foundation less than 1%.

Strong acquisition pipeline for future growth

Through its established relationships with developers, approved providers, care providers and local authorities, SOHO continues to have a strong pipeline of supported housing investment opportunities, amounting to more than £150m and comprising standing assets (completed properties) and forward funding projects. The investment manager anticipates being able to complete on a significant proportion of these over time.

Exhibit 5: Pipeline of acquisition opportunities in excess of £150m



Source: SOHO data

Funding in place

With existing capital resources effectively fully deployed (including development commitments), in October 2020 SOHO issued £55m (gross) of new equity. In December 2020, this was complemented by a £30m increase in the group's revolving credit facility (RCF).

SOHO now has aggregate debt facilities of £228.5m, comprising £68.5m of long-term, fixed-rate private placement loan notes and £160m of shorter-term, more flexible variable rate RCF jointly provided by Lloyds and NatWest. £30m of the RCF remained undrawn at end-FY20, while cash resources amounted to £53.7m. End-FY20 gross gearing (defined as aggregate borrowings as a percentage of gross assets) was 31.5% compared with a medium-term target of 35-40%. Our forecasts indicate an increase to around 34% by end-FY21 as the equity and debt capital resources are deployed.

Financials and valuation

The FY20 results were in most respects slightly ahead of our forecasts (Exhibit 6). The underlying changes to our FY21 and FY22 forecasts are relatively modest, although we have allocated a portion of the assumed capital commitment towards new forward-funded development projects with the impact that some of the growth that we expect in rental income is deferred until completion. This is captured in our first-time FY23 forecast. Due to operational gearing, the rent deferral has a more significant impact on FY21e and FY22e EPRA earnings and EPS. We expect DPS to increase broadly in line with inflation and to be covered by EPRA EPS from FY22.

Exhibit 6: Forecast revisions

	Total income (£m)			EPRA earnings (£m)			EPRA EPS (p)			EPRA NAV/share (p)			DPS (p)		
	New	Old	% chg	New	Old	% chg	New	Old	% chg	New	Old	% chg	New	Old	% chg
12/21e	33.9	35.8	(5.2)	20.9	22.8	(8.7)	5.18	5.67	(8.7)	108.8	108.5	0.3	5.28	5.28	0.0
12/22e	36.1	37.8	(4.4)	22.7	24.5	(7.3)	5.64	6.09	(7.3)	112.5	112.5	(0.0)	5.39	5.39	0.0
12/23e	37.6	N/A	N/A	24.0	N/A	N/A	5.97	N/A	N/A	116.3	N/A	N/A	5.47	N/A	N/A

Source: Edison Investment Research

Importantly, we still expect DPS to be fully covered by adjusted ('cash') earnings from FY21. SOHO's adjusted earnings measure is designed to provide a clearer picture of recurring cash earnings, and compared with EPRA earnings it excludes amortisation of loan arrangement fees and a small amount of capitalised interest in respect of forward-funded developments. A reconciliation is shown in Exhibit 9.

Exhibit 7: Adjusted EPS and dividend cover

	Adjusted EPS (p)		Dividend cover (x)	
	New	Old	New	Old
12/21e	5.41	5.94	1.02	1.12
12/22e	5.87	6.35	1.09	1.18
12/23e	6.20	N/A	1.13	N/A

Source: Edison Investment Research

In our forecasts we have allowed for £75m of capital deployment (previously £72m) split between operational assets (£40m by end-H121) and new forward funding developments (£35m committed by end-FY21 with completion during FY22) at a yield of 5.9% (annualised rent/consideration before acquisition costs). We had previously assumed all new capital would be deployed into immediately income-generating completed assets.

Based on the aggregate FY20 DPS of 5.18p, SOHO offers a yield of 5.1%. With no COVID-19 impact on rent collection or dividend payments, we believe the yield is attractive in the context of a continuing low interest rate environment. The shares are trading at a small discount to end-FY20 NAV per share of 106.4p in line with the average c 4% discount since IPO but well below the peak premium of c 7%.

Compared with the peer group shown in Exhibit 8, SOHO's yield is slightly above the group average, while its P/NTA is below the group average. Demographically driven long-term growth in demand for supported housing, support for the sector from both local and central government, robust rent collection during the pandemic and improvements in the financial strength, governance and operational performance of registered providers of supported housing in response to regulatory oversight are all positive indicators for a re-rating.

Exhibit 8: Peer valuation and performance comparison

	Price (p)	Market cap (£m)	P/NTA* (x)	Yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Assura	72	1725	1.27	3.9	-7%	-7%	-8%	-19%
Civitas Social Housing REIT	110	683	1.02	4.9	2%	6%	22%	-5%
Impact Healthcare	114	364	1.04	5.5	4%	5%	73%	-3%
Primary Health Properties	147	2082	1.30	4.1	-4%	-3%	0%	-12%
Residential Secure Income	93	159	0.89	5.4	3%	3%	14%	-4%
Target Healthcare	114	521	1.05	5.9	1%	0%	20%	-4%
Average			1.09	4.9	0%	1%	20%	-8%
Triple Point Social Housing REIT (SOHO)	**102**	**409**	**0.96**	**5.1**	**-4%**	**-6%**	**16%**	**-11%**
UK property sector index	1,613				-2%	0%	19%	-3%
UK equity market index	3,880				2%	5%	34%	0%

Source: Refinitiv. Note: Prices at 24 March 2021. *Based on last published EPRA NAV/NTA. **Based on 12-month trailing DPS declared.

Exhibit 9: Financial summary

Period ending 31 December (£m)	2017	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT							
Total income	1.0	11.5	21.1	28.9	33.9	36.1	37.6
Directors' remuneration	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Investment management fees	(0.5)	(2.3)	(3.9)	(4.1)	(4.6)	(4.7)	(4.8)
General & administrative expenses	(0.4)	(1.9)	(1.8)	(2.2)	(2.2)	(2.2)	(2.3)
Total expenses	(1.1)	(4.5)	(6.0)	(6.6)	(7.1)	(7.3)	(7.4)
Ongoing charge ratio (OCR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit/(loss) before revaluation of properties	(0.0)	7.0	15.1	22.3	26.9	28.9	30.2
Change in fair value of investment properties	5.6	14.5	11.8	7.9	10.1	13.5	13.5
Operating profit/(loss)	5.6	21.5	26.9	30.2	36.9	42.4	43.6
Net finance income/(expense)	0.1	(1.6)	(3.2)	(5.6)	(6.3)	(6.4)	(6.4)
PBT	5.7	19.9	23.7	24.6	30.6	36.0	37.2
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	5.7	19.9	23.7	24.6	30.6	36.0	37.2
Adjusted for:							
Change in fair value of investment properties	(5.6)	(14.5)	(11.8)	(8.0)	(10.1)	(13.5)	(13.5)
EPRA earnings	0.0	5.4	11.9	16.6	20.6	22.4	23.7
Interest capitalised on forward funded developments	0.0	0.0	(0.1)	(0.1)	0.0	0.0	0.0
Amortisation of loan arrangement fees	0.0	0.0	0.5	1.2	1.2	1.2	1.2
Adjusted earnings	0.0	5.4	12.3	17.7	21.8	23.7	25.0
Basic & diluted average number of shares (m)	143.8	237.6	351.1	360.9	402.8	402.8	402.8
Basic & diluted IFRS EPS (p)	3.94	8.37	6.75	6.82	7.60	8.93	9.23
Basic & diluted EPRA EPS (p)	0.02	2.27	3.39	4.61	5.11	5.57	5.89
Basic & diluted adjusted EPS (p)	0.02	2.29	3.50	4.90	5.41	5.87	6.20
DPS declared (p)	1.00	5.00	5.10	5.18	5.28	5.39	5.47
Adj. EPS/DPS	0.02	0.46	0.69	0.95	1.02	1.09	1.13
BALANCE SHEET							
Investment properties	138.5	324.1	472.3	572.1	642.5	673.5	687.0
Other receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	138.5	324.1	472.3	572.1	642.5	673.5	687.0
Cash & equivalents	58.2	114.6	67.7	53.7	30.0	14.9	18.1
Other current assets	12.0	3.4	4.3	4.3	5.6	5.9	6.0
Total current assets	70.2	118.0	72.0	58.0	35.6	20.8	24.1
Trade & other payables	(5.9)	(9.0)	(8.1)	(5.0)	(12.3)	(12.9)	(13.2)
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	(5.9)	(9.0)	(8.1)	(5.0)	(12.3)	(12.9)	(13.2)
Bank loan & borrowings	0.0	(67.4)	(165.0)	(194.9)	(226.2)	(227.4)	(228.7)
Other non-current liabilities	(1.2)	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Total non-current liabilities	(1.2)	(68.9)	(166.5)	(196.4)	(227.7)	(228.9)	(230.2)
IFRS net assets	201.7	364.2	369.7	428.7	438.1	452.5	467.7
EPRA net assets	201.7	364.2	369.7	428.7	438.1	452.5	467.7
Period-end basic & diluted number of shares (m)	200.0	351.4	350.9	402.8	402.8	402.8	402.8
Basic & diluted IFRS NAV per share (p)	100.8	103.6	105.4	106.4	108.8	112.3	116.1
Basic & diluted EPRA NTA per share (p)	100.8	103.6	105.4	106.4	108.8	112.3	116.1
CASH FLOW							
Net cash flow from operating activity	0.8	5.4	16.3	24.5	32.7	29.2	30.3
Cash flow from investing activity	(142.0)	(160.6)	(135.5)	(94.4)	(60.2)	(17.5)	0.0
Net proceeds from equity issuance	196.0	106.0	0.0	53.1	0.0	0.0	0.0
Net proceeds from C share issuance	0.0	46.6	0.0	0.0	0.0	0.0	0.0
Loan interest paid	(0.0)	(1.6)	(2.9)	(4.6)	(5.1)	(5.2)	(5.2)
Bank borrowings drawn/(repaid)	0.0	58.0	111.1	29.4	30.0	0.0	0.0
Share repurchase	0.0	0.0	(0.4)	0.0	0.0	0.0	0.0
Dividends paid	0.0	(10.1)	(17.8)	(18.8)	(21.2)	(21.6)	(22.0)
Other cash flow from financing activity	0.0	(1.2)	(3.5)	(1.1)	(0.0)	(0.0)	0.0
Cash flow from financing activity	196.0	197.8	86.6	58.0	3.8	(26.8)	(27.2)
Change in cash	54.8	42.6	(32.6)	(11.9)	(23.7)	(15.1)	3.2
Opening cash	0.0	54.8	97.3	64.7	52.9	29.1	14.0
Closing cash (excluding restricted cash)	54.8	97.3	64.7	52.9	29.1	14.0	17.2
Restricted cash	3.4	17.3	3.0	0.8	0.8	0.8	0.8
Cash as per balance sheet	58.2	114.6	67.7	53.7	30.0	14.9	18.1
Debt as per balance sheet	0.0	(67.4)	(165.0)	(194.9)	(226.2)	(227.4)	(228.7)
Unamortised loan arrangement costs	0.0	(1.1)	(4.1)	(3.6)	(2.3)	(1.1)	0.2
Total debt	0.0	(68.5)	(169.1)	(198.5)	(228.5)	(228.5)	(228.5)
Net (debt)/cash excluding restricted cash	54.8	28.8	(104.4)	(145.6)	(199.4)	(214.5)	(211.3)
Net LTV (net debt/investment property)	N/A	NA	22.1%	25.5%	31.0%	31.8%	30.8%
Company gearing (gross debt/gross asset value)	0.0%	15.5%	31.1%	31.5%	33.7%	32.9%	32.1%

Source: SOHO historical data, Edison Investment Research

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