



Elite UK REIT

Increasing payout ratio to 90%+

Singapore | REIT | 1H24 RESULTS

- Gross revenue for 1H24 slid by 0.6% YoY owing to the 7.7% vacancy rate in the portfolio to £18.6mn, which was 48% of our FY24e estimates. NPI is in line with our forecast and down by 4.7% to £18.7mn as vacancy holding cost continues to hurt the margin.
- DPU met our expectation plunging 19.5% YoY due to the enlarged unit base, but after adjusted DPU the unit base DPU decreased by 2.2% YoY in the face of the lower income due to the 7 vacant assets.
- We reiterate our BUY recommendation with an unchanged DDM-TP of £0.32. Revenue and DPU has been lowered 2% to factor in prolonged vacancy of 7 properties and rising cost of borrowing, thus projected FY25e DPUs to jump from 2.70 to £4.05 pence. We expect another year of interest rate headwind with turnaround from FY25 onwards. A potential catalyst for DPU growth includes increasing the payout ratio. ELITE is currently trading at an attractive FY24e dividend yield of 11.3% and a P/NAV of 0.63x.

Result at a glance

(£ Mn)	1H24	1H23	YoY	Comments
Gross Revenue	18.61	18.73	-0.6%	Due to the 2 vacant asset
Net Property Income	18.73	19.63	-4.6%	Increase vacancy holding cost
DPU (pence)	1.40	1.43	-2.1%	
Cost of debt	5.2%	5.2%	0.0%	
Gearing	41.4%	46.0%	(4.6ppt)	£28mn Preferential offering
Occupancy rate	92.3%	92.1%	0.2ppt	
NAV per share	0.41	0.51	-19.6%	Enlarged unit base due to PO

Source: Company, PSR

The Positives

+ Picking up in leasing momentum. ELITE has successfully extended the lease for Dallas Court by 10 years with a rental reversion of c.32%. Although this contributes only marginally to the revenue uplift at the portfolio level, it serves as a positive indicator that the office leasing momentum in the UK may be bottoming out, supported by muted supply.

+ Valuation gain. The portfolio valuation remained stable, increasing by 0.6% in 1H24 to £415mn, thanks to several redevelopment plans unlocking property values. This also sets the stage for future divestments, particularly following the BOE rate cut last week, which reduced the rate from a 16-year high. We expect further capital recycling in 2H24, with prices expected to exceed valuations as market momentum picks up. Additionally, it is an opportune time for ELITE to increase its payout ratio above 90%, as its balance sheet has been substantially strengthened and will continue to improve with the lower interest rates.

The Negative

- Revenue vacuum. 1H24 NPI was supported by the £1.4mn dilapidation settlements, leaving only one settlement remaining before exhausting this revenue top-up source. The seven vacant assets continue to exert downward pressure on the top line. We do not expect any acquisitions in the near term due to the high interest rate environment in the UK and ELITE's objective to keep gearing below 40%. As a result, DPU may face further erosion.

- Cost of borrowing inching up. Although cost of borrow was flat in 1H24 at 5.2%. We expect the all-in cost of borrowing to increase to c.6% by the end of this year, imposing another year of interest rate headwind.

8 August 2024

BUY (Maintained)

LAST CLOSE PRICE	GBP 0.27
FORECAST DIV	GBP 0.03
TARGET PRICE	GBP 0.32
TOTAL RETURN	28.6%

COMPANY DATA

BLOOMBERG CODE:	ELITESP Equity
O/S SHARES (MN):	587
MARKET CAP (USD mn / GBP mn):	194 / 153
52 - WK HI/LO (GBP):	0.35 / 0.2
3M Average Daily T/O (mn):	0.17

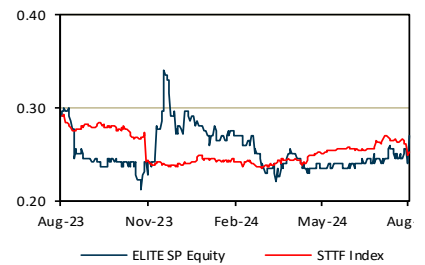
MAJOR SHAREHOLDERS

Reinsurance	8.7%
Partner Reinsurance Co Ltd	8.0%
Ho Lee Group Trust	7.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.0)	2.1	(9.7)
STTF RETURN	(5.4)	(1.5)	1.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (£mn)	37.1	37.6	37.9	39.7
Dist. Inc. (£mn)	23.1	14.7	17.6	23.7
P/NAV (x)	0.47	0.56	0.67	0.68
DPU (cents)	4.81	3.07	2.70	4.05
Dist. Yield (%)	20.04	12.79	11.25	16.89

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity:13.48%; Terminal g: 1%)

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Outlook

Divestment is progressing well for ELITE, and we expect momentum to pick up soon, given the recent BOE rate cut, and the time needed for the market to react. We expect ELITE will divest 3-4 assets from the 7 vacant properties (worth c.£6.5 mn), with prices expected to be at a premium to book value.

Meanwhile, ELITE is confident in the potential of its two redevelopment plans. Additional power has been secured for the data centre project, and a detailed plan will be released by the end of the year. We believe more opportunities are on the horizon, as the UK has abolished the planning process and granted rights for all offices to be converted into residential properties. Given the shortage of residential supply in the UK, ELITE is well-positioned to generate better yields from these conversions.

Maintain BUY with an unchanged TP of £0.32

ELITE is well positioned against any possible macroeconomy backdrop as more than 99% of the revenue are generated from government tenants with good track record of rental payment. We maintain our BUY recommendation with an unchanged DDM-TP of £0.32. FY24e/ FY25e DPU estimates have been revised down by 2%/8% to account for the prolonged vacancy of 7 properties and the rising cost of borrowing, resulting in projected FY24-25e DPUs ranging from £2.70 to £4.05 pence.

Financials

Income Statement

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	34.73	37.08	37.64	37.90	39.72
Property Expense	(1.00)	(1.33)	(3.84)	0.34	(1.48)
Net Property Income	33.73	35.74	33.80	38.24	38.24
Interest Cost	(4.85)	(7.42)	(12.36)	(14.64)	(12.43)
Total return before before tax	(3.37)	(16.84)	(21.38)	19.61	21.53
Tax Expense	(1.37)	(1.50)	(0.79)	(0.90)	(0.90)
Net income after Tax	(4.74)	(18.33)	(22.17)	18.71	20.63
Amount available to unitholders	32.87	36.46	28.90	21.60	23.74
Distribution to unitholders	24.53	23.10	14.69	17.60	23.74

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (\$\$)	0.61	0.52	0.43	0.36	0.36
DPU (£ cents)	5.43	4.81	3.07	2.70	4.05

Cash Flow

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Total return for the period before	(3.37)	(16.84)	(21.38)	19.61	21.53
Adjustments	35.24	48.80	59.75	17.44	15.45
WC changes	(6.26)	(1.68)	8.93	(9.32)	(0.41)
Tax paid and interest received	(2.92)	(2.42)	(2.94)	(0.90)	(0.90)
Cash generated from ops	22.69	27.86	44.55	26.82	35.66
CFI					
CAPEX	-	(7.44)	(3.67)	-	-
Cashflow from investments	(9.40)	(7.44)	(0.46)	-	-
CFF					
Interest Payment	(3.57)	(5.28)	(11.18)	(14.64)	(12.43)
Distributions to unitholders	(17.59)	(22.79)	(18.49)	(17.60)	(23.74)
Cashflow from financing	(14.10)	(33.15)	(33.92)	(32.24)	(36.17)
Net change in cash	(0.81)	(12.73)	10.17	(5.41)	(0.51)
Cash at the start of the period	18.98	18.17	5.44	15.61	10.20
Ending cash	18.17	5.44	15.61	10.20	9.69

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Cash and short term deposit	19.48	7.44	20.82	10.20	9.69
Trade Receivables	12.03	11.87	2.87	12.14	12.72
Total current assets	31.51	26.75	29.84	32.53	32.61
Investment properties	501.35	459.98	413.72	413.72	413.72
Total non-current assets	501.86	460.04	414.20	414.20	414.20
Total Assets	533.36	486.80	444.04	446.73	446.81
LIABILITIES					
Trade payables	5.63	4.82	4.76	4.93	5.16
Loans and borrowings	6.60	7.20	126.29	126.29	126.29
Others	9.83	10.41	10.51	10.51	10.51
Total current liabilities	22.06	22.43	141.56	141.72	141.96
Loans and borrowings	217.25	213.07	94.02	94.02	94.02
Deferred tax liabilities	3.80	2.17	1.22	1.22	1.22
Total non-current liabilities	222.29	216.47	95.25	95.25	95.25
Total Liabilities	244.35	238.89	236.80	236.97	237.20
Net assets	289.02	247.90	207.24	209.76	209.61
Represented by:					
Unitholders' funds	289.02	247.90	207.24	208.18	208.13

Valuation Ratios

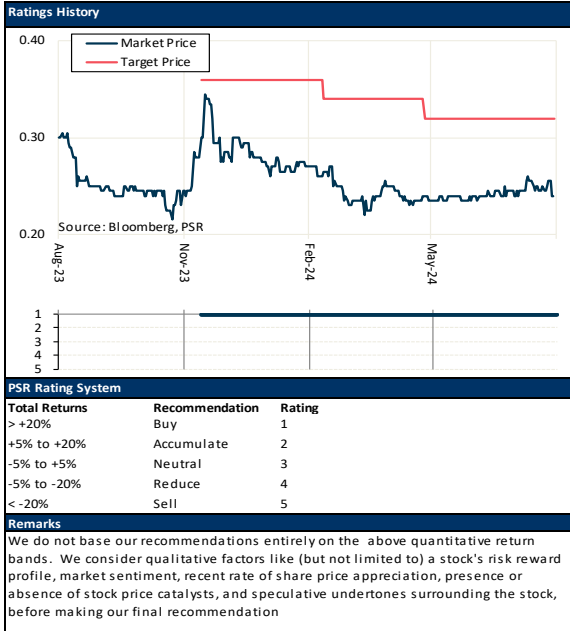
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.40	0.47	0.56	0.67	0.68
Distribution Yield (%)	22.63	20.04	12.79	11.25	16.89

Growth & Margins

Growth					
Revenue		6.75%	1.52%	0.69%	4.80%
Distributable income		-5.83%	-36.41%	19.84%	34.88%
DPU		-11.42%	-36.17%	-12.05%	50.17%

Key Ratios

ROE	-	-	-	2.23%	2.46%
Gearing	0.42	0.45	0.41	0.41	0.41



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