

Elite UK REIT

DPU back to growth



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Singapore | REIT | 3Q24 UPDATE

- Gross revenue for 9M24 decreased by 1.8% YoY to £28mn, in line with expectations and forming 74% of our FY24e estimates. The decline was solely due to straight-line adjustment and is expected to reverse in later years.
- Although NPI was not disclosed, 9M24 DPU rose by 3.9% YoY to 2.13 pence, driven by tax savings and lower financing costs, as ELITE has used the dilapidation settlement to pay down its debt. The 9M24 DPU aligns with our forecast, forming 78% of full-year estimates. ELITE may raise its payout ratio to above 90% amid an improving macro environment and progress in asset monetization.
- We maintain our BUY recommendation with an increased DDM-based TP of £0.34 (prev:£0.32). Our FY24e-25e DPU forecasts have been adjusted by +3%/0% to 2.8/3.28 pence. The DPU forecast assumes a 90% payout ratio as a base scenario, given our expectation that ELITE will retain some distributable income to cushion against macro uncertainties. With another dilapidation settlement anticipated by year-end, we expect ELITE's risk profile to improve further through reduced debt levels. ELITE is currently trading at an FY24e dividend yield of 9.3% and 0.77x P/NAV.

Result at a glance

(£ Mn)	9M24	9M23	YoY	Comments
Gross Revenue	28.00	28.50	-1.8%	Straight-line rent adjustment
Occupancy rate	93.9%	92.1%	0.2ppt	
DPU (pence)	2.13	2.05	3.9%	Lower financing cost & tax saving
Cost of debt	5.0%	5.3%	(0.3ppt)	
Gearing	43.6%	45.8%	(2.2ppt)	
NAV per share	0.39	0.51	-23.5%	Enlarged unit base due to PO

Source: Company, PSR

The Positives

+ Lower financing cost. The cost of borrowing decreased by 20bps QoQ to 5.0% due to a 4ppt increase in hedging position. Although the BOE has revised its inflation forecast upward from 1.5% earlier this year to 2.6% for 2025, which could prompt a more cautious stance on interest rate cuts, we expect minimal impact on ELITE. This is due to its increased hedging exposure, now at 87%, with no refinancing obligations until 2027. We anticipate that the all-in cost of borrowing will remain stable at this level in FY25e.

+ Asset monetisation is well on track. Sidlaw House was divested at a price 41.7% above its book value. Management has indicated that offers have been received for two other vacant assets, with an additional asset under negotiation. We believe these will also be divested at a price premium, expected to be completed by 1Q25. With additional proceeds directed toward debt reduction, ELITE is well-positioned to deliver positive DPU growth in FY25e.

The Negatives

-NIL

Outlook

ELITE plans to increase its payout ratio to above 90% if year-end valuations remain stable amid improving macro conditions. We expect the distribution retention policy to extend into FY25e, with a potential restoration in FY26. Leasing momentum in the UK has been strengthening, as evidenced by ELITE's recent lease renewal for Theatre Buildings, achieving a positive rent reversion of 5.3%. Although ELITE anticipates interest rates to remain elevated due to persistent inflation in the UK, the transaction market shows signs of recovery, with buyers increasingly focused on extracting land value through redevelopment opportunities.

6 November 2024

BUY (Maintained)

LAST CLOSE PRICE	GBP 0.30
FORECAST DIV	GBP 0.03
TARGET PRICE	GBP 0.34
TOTAL RETURN	24.4%

COMPANY DATA

BLOOMBERG CODE:	ELITE SP Equity
O/S SHARES (MN):	587
MARKET CAP (USD mn / GBP mn):	228 / 176
52 - WK HI/LO (GBP):	0.35 / 0.22
3M Average Daily T/O (mn):	0.22

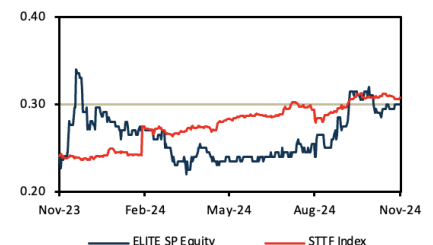
MAJOR SHAREHOLDERS

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(3.2)	24.1	19.0
STTF RETURN	(0.3)	7.3	15.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (£mn)	37.1	37.6	37.9	38.4
Dist. Inc. (£mn)	23.1	14.7	17.6	21.4
P/NAV (x)	0.58	0.70	0.84	0.84
DPU (cents)	4.81	3.07	2.80	3.28
Dist. Yield (%)	16.03	10.23	9.33	10.93

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity:12.5%; Terminal g: 1%)

LIU MIAOMIAO (+65 6212 1849)

Research Analyst

liumm@phillip.com.sg

Furthermore, although capital gains tax rates will rise to between 18% and 24%, up from the current 10% to 20%, according to the UK Autumn 2024 Budget, ELITE will not be affected, as it operates under the UK REIT tax regime.

Maintain BUY with a higher TP of £0.34 (prev: £0.32)

ELITE is currently trading at an attractive FY24e dividend yield of 9.3% and 0.77x P/NAV. We have revised our FY24e-25e DPU forecasts by +3% and 0% to 2.8/3.28 pence, based on a 90% payout ratio. ELITE has repaid £38mn in debt so far in 2024, with no refinancing risk until 2027, positioning it well to withstand the higher-for-longer interest rate environment in the UK.

Financials

Income Statement

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	34.73	37.08	37.64	37.90	38.38
Property Expense	(1.00)	(1.33)	(3.84)	(2.06)	(2.55)
Net Property Income	33.73	35.74	33.80	35.84	35.84
Interest Cost	(4.85)	(7.42)	(12.36)	(14.64)	(12.43)
Total return before before tax	(3.37)	(16.84)	(21.38)	17.45	19.41
Tax Expense	(1.37)	(1.50)	(0.79)	(0.90)	(0.90)
Net income after Tax	(4.74)	(18.33)	(22.17)	16.55	18.51
Amount available to unitholders	32.87	36.46	28.90	19.20	21.39
Distribution to unitholders	24.53	23.10	14.69	17.60	19.25

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (\$\$)	0.61	0.52	0.43	0.35	0.36
DPU (£ cents)	5.43	4.81	3.07	2.80	3.28

Cash Flow

Y/E Dec, (£'mn)	FY21	FY22	FY23	FY24e	FY25e
Total return for the period before	(3.37)	(16.84)	(21.38)	17.45	19.41
Adjustments	35.24	48.80	59.75	17.20	15.21
WC changes	(6.26)	(1.68)	8.93	(9.32)	0.01
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	24.42	33.74
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)	(19.25)
Cashflow from financing	(14.10)	(33.15)	(33.92)	(32.24)	(31.68)
Net change in cash	(0.81)	(12.73)	10.17	(7.81)	2.06
Cash at the start of the period	18.98	18.17	5.44	15.61	7.80
Ending cash	18.17	5.44	15.61	7.80	9.86

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	7.80	9.86
Trade Receivables	12.03	11.87	2.87	12.14	12.29
Total current assets	31.51	26.75	29.84	30.13	32.34
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	444.33	446.55
LIABILITIES					
Trade payables	5.63	4.82	4.76	4.93	4.99
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	141.79
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	237.03
Net assets	289.02	247.90	207.24	207.36	209.51
Represented by:					
Unitholders' funds	289.02	247.90	207.24	207.36	209.51

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.49	0.58	0.70	0.85	0.84
Distribution Yield (%)	18.10	16.03	10.23	9.33	10.93

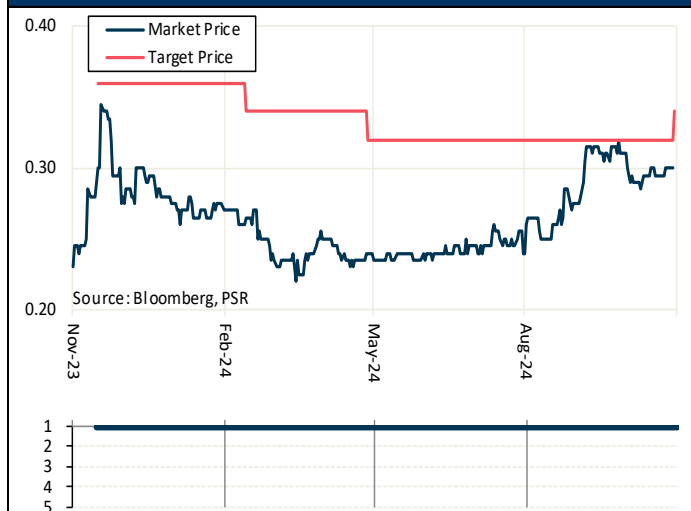
Growth & Margins

Growth					
Revenue		6.75%	1.52%	0.69%	1.28%
Distributable income		-5.83%	-36.41%	19.84%	9.36%
DPU		-11.42%	-36.17%	-8.79%	17.14%

Key Ratios

ROE	-	-	-	1.98%	2.21%
Gearing	0.42	0.45	0.41	0.41	0.41

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Contact Information (Singapore Research Team)		
Head of Research Paul Chew – paulchewkl@phillip.com.sg		Research Admin Qystina Azli – qystina@phillip.com.sg
Technical Analyst Zane Aw – zaneawyx@phillip.com.sg	Property REITs Darren Chan – darrenchanrx@phillip.com.sg	Property REITs Liu Miaomiao – liumm@phillip.com.sg
Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg	US Tech Analyst (Digital Entertainment/Semicons) Jonathan Woo – jonathanwooki@phillip.com.sg	US Tech Analyst (Software/Services) Ambrish Shah – amshah@phillipventuresifsc.in
US Tech Analyst (Hardware/E-commerce/ETF) Helena Wang – helenawang@phillip.com.sg	Construction Yik Ban Chong (Ben) – chongyb@phillip.com.sg	
Contact Information (Regional Member Companies)		
SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg	MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my	HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk
JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website: www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com
UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com	AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapital.com.au	CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh
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