

COMPANY UPDATE

Elite UK REIT (ELITE SP)

PBSA Becomes The Second Engine Of Growth

ELITE has expanded its investment strategy beyond social infrastructure to living assets, such as PBSA and rental housing. It intends to redevelop Lindsay House at Dundee, Scotland and Newport Road in Cardiff, Wales into PBSA. Sponsor Sunway RE Capital owns five PBSA assets in Bristol, Manchester, Sheffield and Southampton, which form an acquisition pipeline. ELITE is a recession-resistant counter-cyclical yield play. Maintain BUY. Target price: £0.38.

WHAT'S NEW

- **Broader mandate encompassing social infrastructure and PBSA.** Elite UK REIT (ELITE) has expanded its investment strategy to a wider range of asset classes within the UK. It continues to focus on social infrastructure assets, such as Jobcentres and government infrastructure and workspaces. It plans to diversify into the living sector, including purpose-built student accommodation (PBSA) and build-to-rent residential housing. The S-REIT was aptly renamed as Elite UK REIT since Apr 24 to set a clear focus on the expanded mandate within the geography boundary of the UK.
- **Expansion into PBSA.** ELITE intends to redevelop Lindsay House at Dundee, Scotland and Newport Road in Cardiff, Wales into PBSA. Lindsay House is near Dundee University and could be converted into a 120-bed PBSA. Newport Road is near Cardiff University and could be redeveloped into a 298-bed PBSA. ELITE intends to submit applications for planning approval as early as 1H25. Sponsor Sunway RE Capital owns five PBSA assets in four cities, namely Bristol, Manchester, Sheffield and Southampton, which form an acquisition pipeline for PBSA.
- **Expanded roles in employment services and fraud prevention.** The British government intends to transform jobcentres beyond their traditional role in benefit administration into jobs and career service hubs, to ensure every young person has access to career advice, quality training and education opportunities. Capacity for mental health support would also be expanded. The Department of Work & Pension (DWP) is also hiring 3,400 "benefits police" to scrutinise the bank accounts of Universal Credit claimants. It will hire 2,000 case review agents to clamp down on Universal Credit fraud. It also will deploy 1,400 counter-fraud professionals to perform advanced checks on claimants. Furthermore, DWP will harness new technologies, such as advanced analytics and AI to reduce fraud and safeguard the welfare system. The new hires will be deployed at jobcentres.
- **Deleveraging through divestments.** ELITE has received offers for three vacant assets, namely Hilden House at Warrington, St Paul's House at Chippenham and Crown Buildings at Caerphilly. We estimate that the three assets could be sold for £5.6m. We expect ELITE to clock divestment gains of £0.6m in aggregate. We expect aggregate leverage to be lowered by 0.4ppt to 42.0% in 2025.

KEY FINANCIALS

Year to 31 Dec (£m)	2022	2023	2024F	2025F	2026F
Net turnover	37	38	38	38	38
EBITDA	32	31	30	29	29
Operating profit	32	31	30	29	29
Net profit (rep./act.)	23	18	16	17	17
Net profit (adj.)	23	18	16	17	17
EPU (GBP pence)	4.8	3.6	2.7	2.9	2.9
DPU (GBP pence)	4.8	3.1	3.0	3.1	3.1
PE (x)	6.0	8.0	10.7	10.0	10.0
P/B (x)	0.6	0.7	0.7	0.7	0.7
DPU Yld (%)	16.6	10.6	10.3	10.7	10.7
Net margin (%)	62.1	46.6	42.0	45.1	45.2
Net debt/(cash) to equity (%)	85.9	96.3	71.8	70.2	71.0
Interest cover (x)	4.3	2.5	2.8	3.2	3.2
ROE (%)	8.6	7.7	7.1	7.2	7.2
Consensus DPU ()	-	-	2.9	3.0	3.0
UOBKH/Consensus (x)	-	-	1.03	1.03	1.04

Source: Elite UK REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	£0.29
Target Price	£0.38
Upside	+31.0%

COMPANY DESCRIPTION

ELITE is the first UK-focused S-REIT listed on the SGX. It invests in social infrastructure and living assets in the UK.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ELITE SP
Shares issued (m):	587.1
Market cap (GBPm):	170.3
Market cap (US\$m):	135.5
3-mth avg daily t'over (US\$m):	0.1

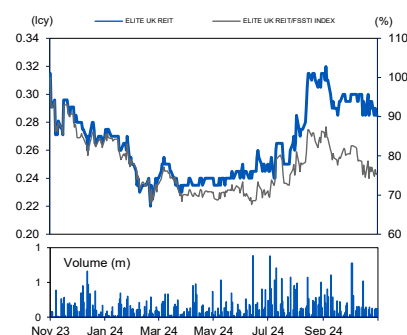
Price Performance (%)

52-week high/low	GBP0.34/GBP0.22			
1mth	3mth	6mth	1yr	YTD
(1.7)	9.4	20.8	(13.4)	3.6

Major Shareholders

	%
PartnerRe Ltd	22.6%
Sunway RE Capital	11.2%
Ho Lee Group	7.6%
FY24 NAV/Share (GBP)	0.40
FY25 Net Debt/Share (GBP)	0.29

PRICE CHART



Source: Bloomberg

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- Substantial gains from potential divestment of data centre campus site.** ELITE has submitted a planning application to develop an 80MW state-of-the-art data centre campus on the 15.7ha Peel Park site at Blackpool. It has secured power supply of 60MW, which is sufficient for two colocation data centres. The site is near a major offshore windfarm, which will become operational in 2028. The site is also near a transatlantic submarine cable landing station linked to Europe and North America. The data centre campus site could provide substantial gains when divested with planning approved.
- Balance sheet strengthened after equity fund raising and refinancing.** ELITE completed 214-for-1,000 preferential offering at an issue price of £0.27 to raise £28m in Jan 24. Aggregate leverage was lowered by 3.9ppt ytd to 43.6% as of Sep 24. ELITE obtained 3.3-year term and revolving facilities of £215m in Jul 24. Average cost of debt eased 0.2ppt to 5.0% in 3Q24. Average debt maturity was extended to 3.3 years and there is no refinancing till 2027. The company has two-year extension options to defer future debt maturities to 2029.
- Mid-year review indicates stable portfolio valuation.** ELITE has conducted a mid-year valuation exercise. Its portfolio valuation increased 0.6% or £2.5m to £415m due to ongoing leasing activities, positive rental reversion of 30% for lease renewal at Dallas Court, Salford and higher land value for the Peel Park site at Blackpool. NAV per unit was £0.41 as of Jun 24.

STOCK IMPACT

- Recession-resistant counter-cyclical yield play.** ELITE benefits from recession-resistant and counter-cyclical cash flows from its sovereign tenants. About 99.2% of ELITE's gross rental income is derived from leases with the UK government. The UK government is rated AA by S&P and Aa3 by Moody's. Its primary occupier DWP uses ELITE's properties primarily as Jobcentre Plus, which provide front-of-house claimant-facing unemployment and ancillary services. Rents are collected three months in advance.
- Resiliency from triple net leases.** The leases with the UK government are full repairing and insuring triple net leases whereby operational expenses are borne by the tenant. Thus, ELITE is insulated from negative impact from higher inflation and cost of electricity. The leases provided a high NPI margin of 92.4% in 1H24.
- Ability to maintain distributions demonstrates resiliency.** ELITE continued to maintain regular distributions to unitholders throughout the COVID-19 pandemic. Management could potentially restore payout ratio to 100% in 2H24 given that a lot of financial risks have already been addressed (1H24: 90%).

EARNINGS REVISION/RISK

- We forecast DPU of 3.0 pence for 2024 and 3.1 pence for 2025.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price for ELITE of £0.38 is based on DDM (COE: 9.0%, terminal growth: 1.0%).

SHARE PRICE CATALYST

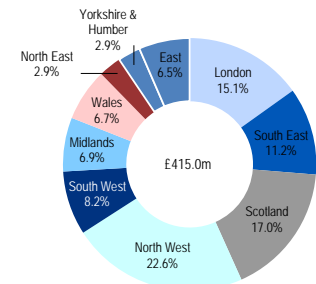
- ELITE is a recession-resistant counter-cyclical yield play that could weather uncertainties created by heightened geopolitical tension and the Russia-Ukraine war.
- Accretive acquisitions of government offices and PBSA in the UK.

KEY OPERATING METRICS

		3Q23	4Q23	1Q24	2Q24	3Q24	yoy	qoq
DPU	pence	0.88	0.60	0.67	0.73	0.73	-17.0%	0.0%
Occupancy	%	92.1%	92.3%	92.3%	92.3%	93.9%	1.8ppt	1.6ppt
Aggregate Leverage	%	45.8%	50.0%	46.3%	43.4%	45.5%	-0.3ppt	2.1ppt
Average Cost of Debt	%	5.3%	5.2%	5.2%	5.2%	5.0%	-0.3ppt	-0.2ppt
Weighted Average Lease Expiry (WALE)	year	4.3	4.2	4.0	3.8	3.5	-0.8yrs	-0.3yrs
% Borrowing In Fixed Rates	%	62%	63%	64%	63%	83%	21.0%	20.0%

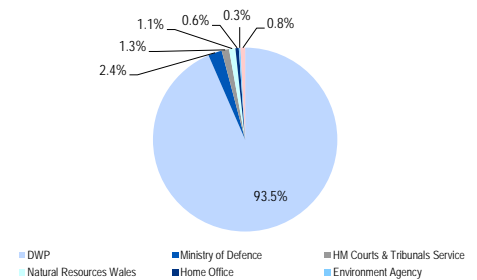
Source: ELITE, UOB Kay Hian

VALUATION BY GEOGRAPHIC REGIONS



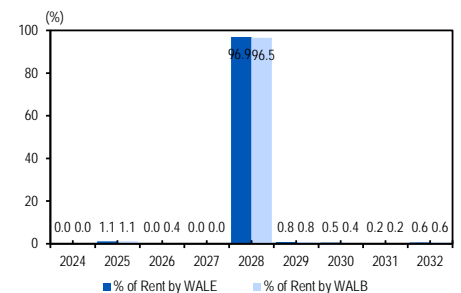
Source: ELITE

GROSS RENTAL INCOME BY TENANTS



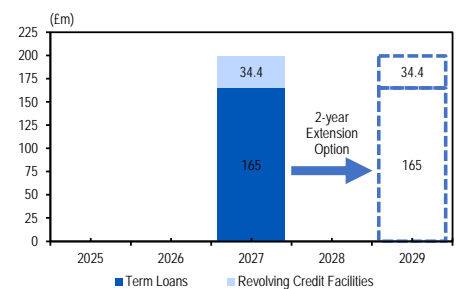
Source: ELITE

LEASE EXPIRY PROFILE



Source: ELITE

DEBT MATURITY PROFILE



Source: ELITE

PROFIT & LOSS

Year to 31 Dec (£m)	2023	2024F	2025F	2026F
Net turnover	37.6	37.7	37.7	37.6
EBITDA	30.7	29.6	29.3	29.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	30.7	29.6	29.3	29.1
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(12.4)	(10.6)	(9.2)	(9.1)
Pre-tax profit	18.3	19.0	20.1	20.0
Tax	(0.8)	(3.2)	(3.1)	(3.0)
Minorities	0.0	0.0	0.0	0.0
Perpetual Securities	0.0	0.0	0.0	0.0
Net profit	17.5	15.8	17.0	17.0
Net profit (adj.)	17.5	15.8	17.0	17.0

BALANCE SHEET

Year to 31 Dec (£m)	2023	2024F	2025F	2026F
Fixed assets	413.7	415.3	410.3	410.3
Other LT assets	0.5	0.5	0.5	0.5
Cash/ST investment	20.8	16.5	16.8	16.6
Other current assets	9.0	6.2	6.2	6.2
Total assets	444.0	438.4	433.8	433.6
ST debt	126.3	92.0	88.0	89.0
Other current liabilities	15.3	15.2	15.2	15.1
LT debt	94.0	94.0	94.0	94.0
Other LT liabilities	1.2	1.2	1.2	1.2
Shareholders' equity	207.2	236.0	235.4	234.2
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	444.0	438.4	433.8	433.6

CASH FLOW

Year to 31 Dec (£m)	2023	2024F	2025F	2026F
Operating	44.6	32.9	26.2	26.2
Pre-tax profit	(21.4)	21.6	20.7	20.0
Tax	(2.9)	(3.2)	(3.1)	(3.0)
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	8.9	(0.2)	0.0	0.0
Non-cash items	49.6	1.7	2.0	2.0
Other operating cashflows	10.3	13.0	6.6	7.1
Investing	(0.5)	(2.8)	5.6	0.0
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(3.7)	(3.7)	0.0	0.0
Proceeds from sale of assets	3.2	0.9	5.6	0.0
Others	0.0	0.0	0.0	0.0
Financing	(33.9)	(34.5)	(31.4)	(26.3)
Distribution to unitholders	(18.5)	(17.5)	(18.2)	(18.2)
Issue of shares	0.0	27.9	0.0	0.0
Proceeds from borrowings	(0.9)	(34.3)	(4.0)	1.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(14.5)	(10.6)	(9.2)	(9.1)
Net cash inflow (outflow)	10.2	(4.4)	0.4	(0.2)
Beginning cash & cash equivalent	7.4	20.8	16.5	16.8
Changes due to forex impact	3.2	0.0	0.0	0.0
Ending cash & cash equivalent	20.8	16.5	16.8	16.6

KEY METRICS

Year to 31 Dec (£m)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	81.5	78.4	77.7	77.4
Pre-tax margin	48.7	50.4	53.3	53.2
Net margin	46.6	42.0	45.1	45.2
ROA	3.8	3.6	3.9	3.9
ROE	7.7	7.1	7.2	7.2
Growth				
Turnover	1.5	0.2	0.0	(0.2)
EBITDA	(4.0)	(3.5)	(1.0)	(0.5)
Pre-tax profit	(25.3)	3.8	5.6	(0.4)
Net profit	(23.9)	(9.7)	7.4	0.2
Net profit (adj.)	(23.9)	(9.7)	7.4	0.2
EPU	(24.4)	(25.2)	6.6	0.2
Leverage				
Debt to total capital	51.5	44.1	43.6	43.9
Debt to equity	106.3	78.8	77.3	78.1
Net debt/(cash) to equity	96.3	71.8	70.2	71.0
Interest cover (x)	2.5	2.8	3.2	3.2

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