Client: Warehouse REIT
Source: Investors Chronicle
Date: 09/08/2019
Page: 38
Reach: 32839
Value: 2578.36

AIM: REAL ESTATE INVESTMENT TRUSTS

BUY

WAREHOUSE REIT (WHR)

Tap into Warehouse Reit's potential

Bull points

- Potential takeover target
- Steep discount to net assets
- Nice dividend yield
- Demand for urban logistics space

Bear points

- Loan-to-value high end
- The shares are thinly traded

The rise of e-commerce, combined with the high cost of building new logistics space, has driven up demand for distribution warehouses that are close to the UK's cities. **Warehouse Reit (WRH)** has benefited from the resulting rise in value of its portfolio and its growing rental income, which has backed generous dividend payouts in the short time its shares have been quoted. The shortage in urban logistics space has driven consolidation within the sector already, notably LondonMetric's (LMP) acquisition of smaller rival A&J Mucklow in May. Given that Warehouse Reit's shares trade well below its per-share net asset value it is feasible that it, too, could become a target.

Warehouse Reit's shares were launched on London's junior market in late 2017, raising £150m for management to invest in warehouse assets in urban areas. The portfolio is focused on small to medium-sized warehouses with good transport links, catering to tenants carrying out so-called 'last mile' delivery services. It looks for buildings that offer long-term flexibility, such as the ability to subdivide larger units or the potential to change permitted use.

During its first full year as a quoted company, Warehouse Reit made a total return of 13.3 per cent, ahead of the 10 per cent target at its flotation, thanks to a 7.4 per cent rise in adjusted net asset value (NAV) and a generous 6p a share in annual dividends. One way Warehouse Reit boosts its returns is by refurbishing vacated units to raise rents. That can add between £5 and £7 per square foot (sq ft) in rental value. The company aims to spend 0.75 per cent of its gross asset value on capital expenditure each year, with a target return of at least 10 per cent. Last year, 62 lettings of vacant space were completed for rents 13 per cent more than expected, which generated an additional £2.1m in rental income.

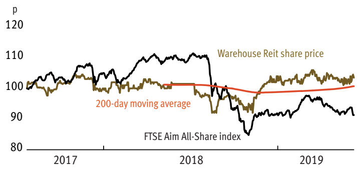
Lease renewals also help boost like-for-like rental income – last year 46 were completed at an average 14.6 per cent above previous rents or 6 per cent ahead of estimated rental values. Since March, demand has remained strong. For example, at the start of the month Warehouse agreed a 10-year lease renewal with the distribution arm of Walgreens Boots Alliance on 113,000 sq ft of distribution space at a 42 per cent uplift to the previous rent paid.

IC TIP RATING
Tip style: GROWTH
Risk rating: MEDIUM
Timescale: LONG TERM

Overall contracted rent may have only risen 1.4 per cent last year, but there was the potential for rental income to be boosted a further 7.6 per cent at the end of March, allowing for the benefits of further refurbishments, re-lettings and reviews. True, Warehouse's loan-to-value ratio is higher than some rivals at 39.7 per cent at the March year-end, but that is a reduction on the prior year and within management's 30-40 per cent target range. The shares are also thinly traded.

Apart from the attraction of a possible takeover offer, at 104p the shares offer a likely dividend yield of 6.3 per cent to be going along with. Combine those factors with the steep discount to NAV at which they trade and the upside looks far better than the downside. Buy. *EP*

Share price 104p



Source: Bloomberg

Warehouse Reit

Ord Price: 104p **Market Value:** £250m
Touch: 103-104p **12-Month High:** 107p **Low:** 91p
Forward Dividend Yield: 6.3% **Trading Properties:** nil
Discount To Forward NAV: 13% **Net Debt:** 69%
Investment Properties: £312m

Year to 31 Mar	Net asset value (p)	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)
2018†	102	5.7	2.0	2.5
2019	110	18.1	6.4	6.0
2020*	111	23.1	5.6	6.2
2021*	119	28.4	7.1	6.5
% change	+7	+23	+27	+5

†Eight months' trading
*Peel Hunt forecasts, adjusted NAV, PTP and EPS figures
Last IC view: Buy, 105.5p, 21 May 2019 Normal market size: 3000 Beta: 0.21