EDISON

Triple Point Social Housing REIT

H121 results

Financial and social returns

Real estate

Triple Point Social Housing REIT (SOHO) delivered strong performance in H121. Its portfolio of long lease specialised social housing assets continues to perform as expected, delivering consistent financial returns and generating strong, externally assessed social value. Although the share price has recently weakened on a revived debate about the sustainability of the lease-based provider model, we forecast no financial impact and expect SOHO to meet its FY21 DPS target (a yield of 5.4%).

Year end	Total income (£m)	Edison adj. earnings* (£m)	Edison adj. EPS* (p)	EPRA NTA**/ share (p)	DPS (p)	P/NTA (x)	Yield (%)
12/19	21.1	12.3	3.50	105.4	5.10	0.92	5.3
12/20	28.9	17.7	4.90	106.4	5.18	0.91	5.4
12/21e	33.0	20.2	4.89	106.9	5.20	0.91	5.4
12/22e	37.9	22.4	5.56	112.6	5.39	0.86	5.6

Note: *As defined in Exhibit 1. **EPRA net tangible assets per share.

Positive outcomes driving demand

Our January initiation note provides a detailed overview of SOHO's strategy and the specialised supported housing (SSH) market. In summary, the shortage of SSH is forecast to increase, yet compared with the alternatives of residential care or hospitals, it improves lives in a cost-effective manner. The Good Economy consultancy independently estimates that every £1 invested by SOHO will generate almost £4 in social value. At a national and local level it is government policy to offer supported housing to more people and private capital is crucial in meeting this need. For those individuals receiving SSH, rents are funded by central government and paid, via the commissioning local authorities, directly to the Approved Providers (APs), which lease the properties from SOHO and manage them. In some cases, APs have struggled to keep pace with the rapid growth of the sector, attracting regulatory scrutiny. We believe this is aimed at delivering sector sustainability (by improving their governance, operational performance and financial strength). This should benefit the security of contracted rents and long-term growth of the sector.

Available capital and strong pipeline

H121 NAV total return was 2.4%, continuing the trend of consistently positive quarterly returns since IPO in 2017. Supported by the award of an investment-grade credit rating from Fitch, the refinancing of short-term, floating rate debt with long-term, fixed-rate debt eliminates interest rate risk and enhances the quality of earnings by locking in a positive spread between debt cost and rental income. It also provides an additional £65m of debt capital to fund acquisitions from a pipeline of opportunities amounting to more than £150m. The additional debt cost reduces our forecast earnings and DPS cover, but we expect FY22 DPS to be substantially covered by cash earnings as the additional debt capital is deployed.

Valuation: Robust, attractive, growing income

FY21e DPS of 5.20p represents a yield of c 5.4%, with good prospects for inflation-indexed growth, while the shares trade broadly in line with net asset value. Combined with robust rent collection, this is in our view attractive in a continuing low interest rate environment.

13 October 2021

Price	**96.8p**
Market cap	**£390m**

Net debt (£m) at 30 June 2021	171.1
Gross gearing at 30 June 2021 (gross debt/gross assets	31.5%
Shares in issue	402.8m
Free float	98.5%
Code	SOHO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(6.9)	(7.6)	(8.7)
Rel (local)	(7.0)	(7.4)	(24.1)
52-week high/low		113.5p	93.1p

Business description

Triple Point Social Housing REIT invests primarily in 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

Q2 DPS paid	30 September 2021
FY21 year end	31 December 2021

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

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

Summary of H121 performance

The interim results show strong year on year growth in assets, income and earnings. In per-share terms, progress was affected by the October 2020 c £55m (gross) equity raise but, although deployment of the proceeds has been slower than SOHO had hoped, by the end of the period the contracted rent roll had increased to £33.4m (end-FY20: £31.6m) and the annualised underlying rate of DPS cover was back at 100%. During H121, SOHO invested £22.3m in 14 new properties (end-H121 total: 458), providing 99 new units (H121 total: 3,214), at acquisition yields in line with previous experience (net initial yield of c 5.9%). The final two of the 22 forward funding projects undertaken to date also completed. With the October 2020 equity proceeds effectively deployed, recently completed debt financing provides an additional £65m of available debt capital. By replacing existing short-term, floating rate borrowing with long-term, fixed-rate debt, the financing (discussed in detail below) enhances the quality of earnings by locking in a positive spread between debt cost and rental income (which should increase over time with indexed rents). At the same time, the company received an investment-grade credit rating[1] from Fitch, a positive endorsement of SOHO's strategy and financial performance, and providing support to its ongoing financing strategy.

Exhibit 1: Summary of H121 financial performance

£m unless stated otherwise	H121	H120	H121/H120	H220
Total income	15.9	13.4	19.1%	15.6
Total expenses	(3.4)	(3.1)	10.4%	(3.5)
Operating profit before revaluation of properties	**12.5**	**10.3**	**21.8%**	**12.1**
Change in fair value of investment properties and held for sale assets	0.7	1.5		6.4
Operating profit	**13.2**	**11.8**		**18.5**
Net finance expense	(2.8)	(2.8)	-1.1%	(2.8)
PBT & net profit	**10.5**	**9.0**		**15.6**
Adjusted for:				
Change in fair value of investment properties	(1.2)	(1.5)		(6.4)
EPRA earnings	**9.2**	**7.4**	**24.4%**	**9.2**
Interest capitalised on forward funded developments	0.0	(0.1)		(0.0)
Amortisation of loan arrangement fees	0.5	0.5		0.6
SOHO adjusted earnings	**9.7**	**7.9**	**23.3%**	**9.8**
Change in fair value of properties held for sale	0.5	0.0		0.0
Edison adjusted earnings	**10.2**	**7.9**	**28.9%**	**9.8**
Basic & diluted IFRS EPS (p)	2.60	2.55		4.21
Basic & diluted EPRA EPS (p)	2.30	2.12	8.4%	2.48
SOHO adjusted EPS (p)	**2.42**	**2.25**	**7.4%**	**2.64**
Edison adjusted EPS (p)	**2.54**	**2.26**	**12.3%**	**2.64**
DPS (p)	2.60	2.59	0.4%	2.59
Dividend cover (SOHO adjusted earnings)	**0.93**	**0.87**		**1.02**
IFRS portfolio value (inc. held for sale)	596.7	511.1	16.7%	572.2
Gross borrowings	(198.5)	(185.1)		(198.5)
Cash	28.2	43.5		53.7
Net assets	428.7	369.6		428.7
IFRS & EPRA NTA per share (p)	**106.4**	**105.3**	**1.0%**	**106.4**
NAV total return	2.4%	2.4%		3.5%
Gross gearing (gross debt/gross assets)	31.5%	33.1%		31.5%
Net LTV (net debt/portfolio valuation)	28.7%	27.8%		25.5%

Source: Triple Point Social Housing REIT data, Edison Investment Research. Note: EPRA earnings adjusts for investment property revaluation movements. SOHO's adjusted earnings also adjusts for capitalised interest and loan fee amortisation. Edison adjusted earnings further adjusts for held for sale property revaluation movements.

[1] An Investment Grade Long-term Issuer Default Rating (IDR) of A- with a Stable Outlook and a senior secured rating of A.

In brief we note that:

- Total income, all rental income, increased by 19% to £15.9m, driven primarily by acquisitions, forward-funding development completions and rent indexation (100% of the portfolio indexed to either RPI or CPI). On an annualised basis, H121 rental income remains below the current level of contracted rents, highlighting further growth embedded in the current portfolio as acquisitions and completed forward funded developments contribute for a full period.
- Administrative expenses grew at a much slower pace of c 10%, primarily driven by management fees tracking the increased net assets to which they are linked. Operating profits before property revaluation increased c 22% with operational gearing reflected in the reduced EPRA cost ratio of 21.5% (H120: 23.2%) and an ongoing cost ratio of 1.53% (H120: 1.61%).
- Finance costs increased only marginally. Much of the investment in the period was funded from cash reserves and, although average debt increased slightly, non-cash finance expenses were lower.
- Reported EPRA earnings and SOHO's measure of adjusted 'cash' earnings increased by c 24% and 23% respectively. Both include c £0.5m of impairment of held-for-sale properties, and excluding this, adjusted earnings increased c 29%. Reflecting the c 14% y-o-y increase in average shares outstanding SOHO adjusted EPS increased c 7% y-o-y to 2.42p, and excluding the impairment of held-for-sale assets was 2.54p, up c 12% on H120.
- H121 DPS was 2.60p (H120: 2.59p) and based on SOHO adjusted earnings, reported dividend cover was 93% or 98% adjusted for the held-for-sale asset impairment. This is a lower level of cover than in H220 (102%) due to the increased number of shares in issue and the time taken to deploy the funds raised. On a run rate basis, dividends were fully covered at end-H121.
- The net change in the fair value of investment properties was £0.7m, including the £0.5m impairment of held-for-sale assets, with the gross gain driven by rent indexation while the valuation yield of 5.28% was little changed.
- Compared with end-FY20, both IFRS and EPRA NTA per share were unchanged at 106.4p after payment of dividends. Adding back dividends paid, the H121 NAV total return was c 2.4% or an annualised c 4.9%.

Consistently positive returns

H121 accounting/NAV total return was a positive 2.4%,[2] continuing the trend of consistently positive returns each quarter since IPO. This strong performance reflects the vital role of portfolio properties in the provision of an essential service, secured by long-term lease and care arrangements, providing good visibility of income with little direct correlation to the wider property market or economy and capable of delivering stable inflation-indexed dividend growth. Since IPO in August 2017 to 30 June 2021 (end-H121), the aggregate NAV total return has been 26.5% or an annual average of 6.2%. Dividends have increased each year since IPO (SOHO targets a further increase in the current financial year) and represent approximately two-thirds of returns.

Exhibit 2: Consistently positive total returns

	FY17	FY18	FY19	FY20	H121	Cumulative since IPO
Opening NAV per share (p)	98.00	100.84	103.65	105.37	106.42	98.0
Closing NAV per share (p)	100.84	103.65	105.37	106.42	106.42	106.4
DPS paid (p)	0.00	4.75	5.06	5.17	2.60	17.6
Annualised NAV total return	7.3%	7.5%	6.5%	5.9%	2.4%	26.5%
Compound annual average return						6.2%

Source: Triple Point Social Housing REIT data

[2] Change in IFRS NAV per share during the period with dividends paid added back (but not assuming reinvestment of dividends).

Strong social impact and ESG credentials

SOHO's strategy is built on providing a positive social outcome while generating attractive financial returns to investors. It has recently published its second annual 'impact report' (available at www.triplepointreit.com/investors) for H121, produced independently for the company by the specialist social impact consultancy, The Good Economy (TGE). The report verifies the quality of SOHO's portfolio across a range of measures and TGE estimates that SOHO's portfolio generated a total social value of £152.1m during the 12 months to 30 June 2021. This includes £91.8m of fiscal savings for public budgets[3] and £60.3m in respect of social impact through improved outcomes for residents. From these values, and using the total amount invested by SOHO, TGE calculated the Social Return on Investment (SROI) ratio to be 3.93 as of June 2021. This means that for every £1 invested, SOHO is expected to generate £3.93 in social value over the duration of the investment.

At the same time as generating enhanced outcomes for residents and cost savings for taxpayers, SOHO is strongly focused on upgrading the environmental performance of its portfolio. It starts from a strong position, with 71% of property units already meeting government targets with an EPC[4] rating of 'C' or better. All new investment now meets the government targets and SOHO has launched a strategic programme to bring every existing property up to a C rating as soon as possible, working with external consultants to assess the scope of works required and the investment that will be needed, using grant funding wherever possible. SOHO expects its contribution to the retrofit works to be c £3.4m (net of grant funding) over the next four years.

SOHO has also adopted a range of further initiatives covering areas such as flood risk assessment and mitigation, reducing the carbon footprint for the construction phase of new properties and introducing green clauses into leases aimed at encouraging lessees to also make reductions in the emissions from their operation of SOHO properties.

Long-term debt financing locks in positive spread

Since the end of H121, on 26 August, SOHO agreed £195m of fixed-rate, interest-only loan notes through a private placement with Barings and MetLife Investment Management clients. The loan notes, which are linked to sustainability targets agreed with the lenders, are divided into two tranches, with terms of 15 years and 10 years respectively. The average term is 13 years at a blended average cost of 2.634% pa. The proceeds have enabled SOHO to repay all its £130m borrowings under its £160m short-term, floating rate, revolving credit facility (RCF), although this will remain in place until expiry in December 2023, and the net £65m addition to drawn borrowings is immediately available for deployment in the group's pipeline of acquisition opportunities. On a pro-forma basis, the H121 gross loan to value (LTV)[5] of 31.5% increases to 37.7%, in line with SOHO's 40% target.

Including existing facilities, all remaining outstanding debt (£263.5m) is now long term and fixed rate, with an average maturity of 11.9 years and blended cost of 2.74%. The strongly positive spread between this fixed funding cost and the portfolio yield of 5.28% is now 'locked-in' should interest rates increase and will grow as inflation-linked rents increase.

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[3] The fiscal savings arise from the significantly lower cost associated with SSH compared with the alternatives of residential care or long-stay hospitals. Mencap data estimate the saving compared with long-stay hospital at c £2,000 per person per week and c £200 per week compared to residential care.

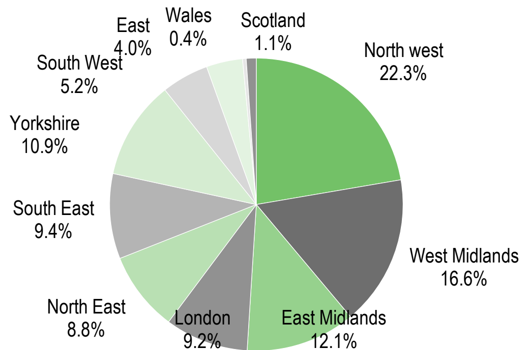
[4] Energy performance certificate.

[5] Gross borrowings as a percentage of gross assets.

Portfolio and pipeline update

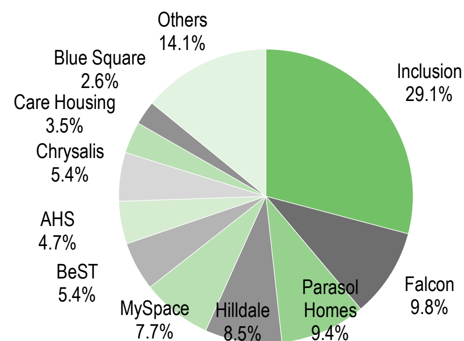
At end-H121, the portfolio was externally valued at £596.3m, reflecting a valuation yield of 5.28% and a 7.7% premium to the £553.6m (including acquisition costs) invested by SOHO at an average 5.91% net initial yield. The portfolio comprises 458 properties, broadly spread across the UK, let to 22 different approved providers[6] (up by two in H121) that manage them to provide homes for more than 3,200 tenants with care provided by 109 care providers. Annualised contracted rents of £33.4m (or £33.5m including properties where contracts have been exchanged) with a long weighted average unexpired lease term (WAULT) of 25.8 years. The leases are all fully repairing and insuring (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.[7]

Exhibit 3: Geographic spread of portfolio*



Source: Triple Point Social Housing REIT. 30 June 2021. Note: *By funds invested.

Exhibit 4: Rental income by approved provider tenant



Source: Triple Point Social Housing REIT. 30 June 2021. Note: Others includes Sunnyvale, Sandwell, IHL, Wings Care, Bespoke Care & Support, IKE, Lifeways, Pivotal, Encircle Housing, Forge House Care, Keys, Partners Foundation.

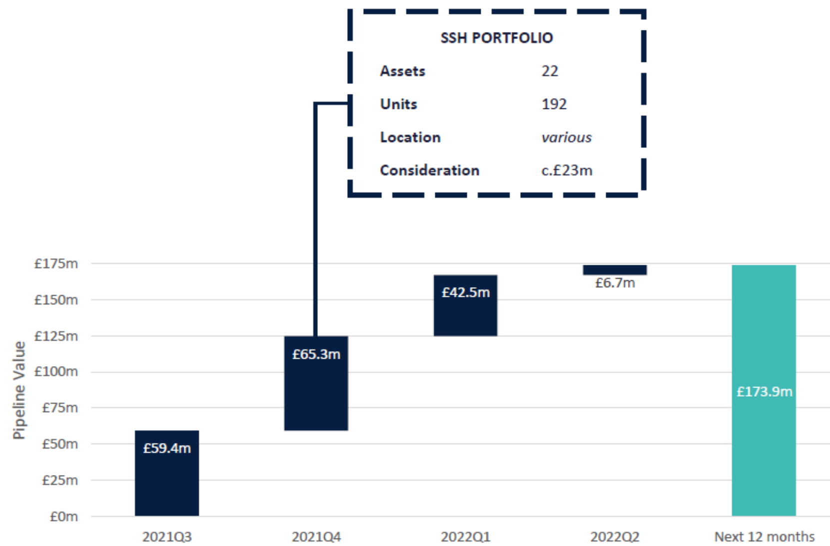
Strong and active investment pipeline

The 12-month forward-looking pipeline of potential investments remains strong, at well over £150m, the majority of which comprises individual, recently adapted or developed properties, in line with SOHO's emphasis on bringing new homes into the sector to meet the chronic shortage of accommodation. The pipeline also includes one portfolio of 22 SSH homes with an anticipated value of c £23m, where SOHO has been granted exclusivity. SOHO says the assets are of high quality and operated by a strong provider (not currently a lessee of the group). Not all of the pipeline will be converted into acquisitions, not least because it is in excess of currently available capital resources, estimated by SOHO at c £70m; rather it is constantly evolving, with some assets dropping out (SOHO has historically rejected c 50% of investment opportunities after thorough due diligence) and others being added through the company's network of developers, brokers, registered providers of SSH, care providers and local authorities.

[6] Predominantly 'registered providers' of SSH but also charities and care providers.

[7] Predominantly linked to the Consumer Price Index (CPI), but with a much smaller number linked to the Retail Price Index (RPI).

Exhibit 5: Significant investment opportunities



Source: Triple Point Social Housing REIT interim results presentation, September 2021

Regulatory engagement to support sustainability

The share prices of both SOHO and its quoted peer Civitas have recently come under pressure due to a well-publicised report by a short seller. The report primarily related to Civitas, which described it as being based on factual inaccuracies, incorrect assumptions, erroneous comments and assertions that are not grounded in fact. Civitas has issued a detailed 37-page response to the report and other questions raised by its shareholders. The short seller report nevertheless raises some concerns about the broader sector and has therefore also negatively affected the SOHO share price. These sector issues are covered in detail in our January initiation note, and primarily relate to shortcomings identified by the Regulator of Social Housing (RSH)[8] in relation to the governance structures, operational efficiency and financial strength of some specialist registered providers. The RSH has expressed a particular concern that providers reliant on lease-based models (ie entering into long-term commitments to pay rents at an increasing level indexed to inflation to support growth) be able to present robust and prudent long-term business plans. These should include identifying the actions required to enable them to meet their lease obligations and maintain financial viability should there be a significant change in the operation of government housing benefits.

Having paused its ongoing review of the SSH sector for a time during 2020, allowing providers to focus on operations and managing the challenges of the pandemic, regulatory engagement with the sector has recommenced and the RSH has continued to review providers of SSH. As part of this review, non-compliant regulatory notices were issued to SOHO lessees Pivotal Housing Association (0.6% of group rents) and Hilldale Housing Association (9.0%) during H121, and Auckland Home Solutions (5.0%) subsequently.[9] The shortcomings that the RSH has identified in some providers in part reflect the strong growth exhibited by the sector in recent years and the challenge this has presented for the development of management and governance structures, as well as capital resources, to keep pace. Solutions to many of the concerns raised by the RSH are clearly identifiable and in no way existential, and SOHO notes that with its support, the organisations affected by regulatory judgements and notices have shown tangible signs of improvement. Given

8 SOHO is not regulated by the RSH but its registered provider lessees are.

9 Regulatory notices have previously been issued to MySpace, Inclusion Housing, BeST and Westmoreland Supported Housing (no longer a SOHO lessee, with most of its leases reassigned and others disposed of).

the long-term nature of the sector, with long leases, reflecting the long time over which care is likely to be needed, satisfying the RSH's need for long-term planning is perhaps more challenging. The first point to make clear is that we see no prospect of a significant change in government policy on housing benefits, based on the chronic and increasing excess demand for SSH and the wide acceptance that it provides improved outcomes at a lower cost than alternative provision. That said, the providers may be able to mitigate this risk by strengthening their balance sheets, including increasing accumulated capital surpluses and building up self-owned property assets. Additionally, SOHO has recently introduced a 'change of law' clause into leases, which allows its lessees to negotiate changes in lease terms in such circumstances, providing greater flexibility in the long-term planning.

More generally, SOHO welcomes this ongoing regulatory review, bringing as it does higher levels of accountability and transparency. As one of the leading private sector investors in the supported housing sector, working with some of the fastest-growing providers, seven SOHO lessees (of a total of 22) are subject to regulatory judgements and notices,[10] although it is important to stress that there has been no impact on rent collection nor any negative impact on the external valuations of the properties owned by it. We expect this to remain the case. In our view, regulatory interventions in the SSH segment of social housing are primarily aimed at identifying, assessing and making clear the risks, so that these may be adequately managed, to safeguard this financial resilience and maintaining the operational standards of the sector. 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. There may well be cases where some approved providers across the sector are unable to satisfy the RSH, which over time may lead to concentration among the providers (perhaps through mergers and other amalgamations), leading to a smaller number of stronger providers and enhancing covenant strength for landlords. As has been demonstrated, quality properties, in the right locations, adequately adapted, and supporting an appropriate level of care are attractive to alternative providers in their efforts to meet the strong and growing need for accommodation.

Forecast update

Our forecasts are updated for the H121 results and our revised capital deployment assumptions, taking account of the additional borrowing capacity, remaining within the company's overall LTV targets.

In its H121 results conference call, SOHO indicated that it now has c £70 of available capital to deploy and that given its strong pipeline, it hopes to have deployed much, if not all of this, by the end of 2021. We have assumed this to be the case, allocating this entirely to completed assets,[11] which is c £20m more than our previous assumptions. We have assumed 6.1% acquisition costs for the completed asset acquisitions, in line with the notional buyers' costs included in the EPRA yield analysis, and a 5.9% net initial yield on investment.

There are no material changes to our other operational assumptions/forecasts.

We highlight the attractions of the new financing above. In terms of our near-term financial forecasts, and reflecting the yield curve, the new long-term, fixed-rate debt facilities increase the average cost of borrowing compared with shorter-term, floating rate RCF that has been paid down.

[10] These seven APs collectively account for c 60% of rents.

[11] We had previously assumed a share of forward funding in our estimates but have revised this to take account of the updated pipeline data provided by SOHO. For our forecasts this is a timing issue only, with the cash investment related to forward funding deployment spread over a longer period, with rents earned from completion.

SOHO will also continue to pay non-utilisation fees on the RCF until expiry in December 2023. We had previously assumed a full drawdown of the RCF, with the proceeds deployed in acquisitions. The new facilities increase available debt capital by £35m compared with this assumption, and by £65m compared with the H121 position (RCF: £130m drawn). Compared with our previous forecast, the annualised increase in finance costs, a net c £3.3m, is partly offset by the additional deployment (c £1.2m of rental income). However, when, or before, the current debt capital resources are fully deployed, we would expect SOHO to seek additional equity funding, although is unlikely until the share price returns to a premium to net asset value. Given the strength of the investment pipeline, is likely to provide an opportunity to also deploy the lower-cost RCF. In financial terms, we would expect this to be accretive, increasing portfolio scale and diversification, while enhancing the social value generated.

Exhibit 6: Annualised impact of financing on interest expense (RCF and new loan notes only; no impact on other fixed rate debt)

	Previously assumed	Revised assumption
Facility	**RCF**	**MetLife/Barings loan notes**
Drawn (£m)	160	195
Interest rate	1.90%*	2.63%
Annualised interest (£m)	3.0	5.1
Non-utilisation fee rate on RCF	0.74%	N/A
Non-utilisation fees on RCF (£m)	0.0	1.2
Total expense in respect of these facilities	**3.0**	**6.3**

Source: Triple Point Social Housing REIT data, Edison Investment Research. Note: *1.85% above assumed Libor.

A summary of our revised forecasts is shown in Exhibit 7. Slower than previously expected deployment holds back FY21e income, but this is more than made up in FY22 and FY23, including the additional deployment assumed. Nevertheless, the near-term impact of the financing is to reduce our forecasts for EPRA earnings and EPS. The presentation of EPRA (and SOHO's adjusted earnings measure) is conservative, including negative of held-for-sale property revaluation (£0.5m in H121).

Exhibit 7: 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	33.0	33.9	(2.7)	18.7	20.6	(8.9)	4.65	5.11	(8.9)	106.9	108.8	(1.7)	5.20	5.20	0.0
12/22e	37.9	36.1	4.9	21.4	22.4	(4.5)	5.31	5.57	(4.5)	112.6	112.4	0.2	5.39	5.39	0.0
12/23e	38.7	37.6	3.1	22.0	23.7	(7.2)	5.47	5.89	(7.2)	118.4	115.9	2.2	5.47	5.47	0.0

Source: Edison Investment Research. Note: *We draw readers attention to the footnote at the bottom of this page.[12]

Although our expectation for dividend cover is reduced, we expect FY21 DPS to be substantially covered by SOHO's adjusted 'cash' earnings and fully covered in FY22 and FY23 as the additional debt capital is deployed.[13] Given the scale of the investment opportunity, we expect SOHO to grow further over the medium term, funded by additional capital, generating further scale economies and increasing dividend cover.

[12] We last updated our forecast in detail in our 25 March 2021 note. On 18 May 2021, we provided a short update on the Q121 NAV and dividend declaration. For FY21, this correctly included the 5.20p DPS targeted by management but in the financial summary incorrectly showed a FY22 DPS of 5.49p (rather than 5.39p) and for FY23 5.80p (rather than 5.47p).

[13] 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 10.

Exhibit 8: Adjusted EPS and dividend cover

	Company adjusted EPS (p)		Dividend cover (x)	
	New	Old	New	Old
12/21e	4.89	5.41	0.94	1.04
12/22e	5.56	5.87	1.03	1.07
12/23e	5.71	6.20	1.04	1.07

Source: Edison Investment Research. Note: FY21 dividend cover is 97% based on Edison adjusted earnings. FY22 and FY23 are unchanged on this basis.

Valuation

The key support for valuation comes from the long-term, inflation-linked rental stream that has been reflected in progressive DPS growth and low-volatility, steadily positive accounting total returns. Based on targeted quarterly DPS payments amounting to 5.20p for the current year, SOHO offers a yield of 5.4%. The 0.4% increase in FY21 DPS compared with FY20 is in line with the annual February increase in the UK CPI. CPI inflation has picked up since and we expect higher levels throughout FY22 and FY23. The shares are trading at a c 9% discount to end-H121 NAV per share of c 106.4p, which compares with an average c 4% discount since IPO and a peak of c 7%.

In Exhibit 9 we show a share price performance and valuation comparison with a group of companies that we would consider to be the closest peers to SOHO. The peers are all focused on stable, growing income returns, with the potential for capital appreciation, from investment in social/healthcare properties let on long leases to tenants whose income is provided, to differing degrees, by government funding. Over the past 12 months, the group has shown a weaker share price development than the broader UK property sector and UK market as stocks and sectors that were hardest hit early in the pandemic have been rebounding. The share prices of both SOHO and Civitas have weakened recently as discussed above, having previously traded at a premium. This leaves the SOHO yield well above the peer group average and its P/NTA well below the average. With performance during the pandemic demonstrating the resilience of the sector and the business model, this attractive yield combined with the social benefit delivered by the company provide the basis for a significantly positive response by the shares to an alleviation of recently re-ignited investor concerns about sector sustainability.

Exhibit 9: Peer valuation and performance comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Target yield*** (%)	Share price performance			
						1 month	3 months	12 months	From 12M high
Assura	72	1936	1.27	3.9	4.0	-5%	-6%	-6%	-10%
Civitas Social Housing	90	558	0.83	6.1	6.2	-4%	-23%	-14%	-26%
Home REIT	108	270	1.05	2.3	5.1	-4%	-2%	N/A	-7%
Impact Healthcare	115	366	1.04	5.5	5.6	-3%	-2%	15%	-6%
Primary Health Properties	154	2174	1.33	3.9	4.0	-6%	-5%	4%	-10%
Residential Secure Income	99	169	0.94	5.1	5.1	-7%	-6%	9%	-12%
Target Healthcare	115	528	1.05	5.8	N/A	-4%	-3%	10%	-8%
Average			**1.07**	**4.7**	**5.0**	**-5%**	**-7%**	**3%**	**-11%**
Triple Point Social Housing	**97**	**390**	**0.91**	**5.4**	**5.4**	**-5%**	**-7%**	**-9%**	**-15%**
UK property sector index	1,825					-4%	-1%	25%	-8%
UK equity market index	4,060					0%	0%	21%	-2%

Source: Company data. Refinitiv. Note: Prices at 12 October 2021. *Based on last published EPRA NAV/NTA. **Based on 12-month trailing DPS declared. ***Based on company's current financial DPS targets.

Exhibit 10: Financial summary

Period ending 31 December (£m)	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT						
Total income	11.5	21.1	28.9	33.0	37.9	38.7
Directors' remuneration	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Investment management fees	(2.3)	(3.9)	(4.1)	(4.5)	(4.6)	(4.8)
General & administrative expenses	(1.9)	(1.8)	(2.2)	(2.1)	(2.2)	(2.2)
Total expenses	(4.5)	(6.0)	(6.6)	(7.0)	(7.1)	(7.3)
Ongoing charge ratio (OCR)	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit/(loss) before revaluation of properties	7.0	15.1	22.3	26.1	30.8	31.4
Change in fair value of investment properties	14.5	11.8	7.9	3.8	22.8	23.6
Operating profit/(loss)	21.5	26.9	30.2	29.9	53.5	55.0
Net finance income/(expense)	(1.6)	(3.2)	(5.6)	(6.8)	(9.4)	(9.4)
PBT	19.9	23.7	24.6	23.0	44.2	45.6
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	19.9	23.7	24.6	23.0	44.2	45.6
Adjusted for:						
Change in fair value of investment properties	(14.5)	(11.8)	(8.0)	(4.3)	(22.8)	(23.6)
EPRA earnings	5.4	11.9	16.6	18.7	21.4	22.0
Interest capitalised on forward funded developments	0.0	(0.1)	(0.1)	0.0	0.0	0.0
Amortisation of loan arrangement fees	0.0	0.5	1.2	1.0	1.0	1.0
Company adjusted earnings	5.4	12.3	17.7	19.7	22.4	23.0
Change in valuation of property held for sale	0.0	0.0	0.1	0.5	0.0	0.0
Edison adjusted earnings	5.4	12.3	17.7	20.2	22.4	23.0
Basic & diluted average number of shares (m)	237.6	351.1	360.9	402.8	402.8	402.8
Basic & diluted IFRS EPS (p)	8.37	6.75	6.82	5.72	10.96	11.32
Basic & diluted EPRA EPS (p)	2.27	3.39	4.61	4.65	5.31	5.47
Basic & diluted company adjusted EPS (p)	2.29	3.50	4.90	4.89	5.56	5.71
Edison adjusted EPS (p)	2.29	3.50	4.91	5.02	5.56	5.71
DPS declared (p)	5.00	5.10	5.18	5.20	5.39	5.47
Company adj. EPS/DPS	0.46	0.69	0.95	0.94	1.03	1.04
BALANCE SHEET						
Investment properties	324.1	472.3	572.1	649.2	672.0	695.5
Other receivables	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	324.1	472.3	572.1	649.2	672.0	695.5
Cash & equivalents	114.6	67.7	53.7	44.0	45.1	46.2
Other current assets	3.4	4.3	4.3	5.7	6.3	6.3
Total current assets	118.0	72.0	58.0	49.8	51.4	52.5
Trade & other payables	(9.0)	(8.1)	(5.0)	(5.8)	(6.6)	(6.6)
Other current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	(9.0)	(8.1)	(5.0)	(5.8)	(6.6)	(6.6)
Bank loan & borrowings	(67.4)	(165.0)	(194.9)	(260.9)	(261.9)	(262.8)
Other non-current liabilities	(1.6)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Total non-current liabilities	(68.9)	(166.5)	(196.4)	(262.4)	(263.4)	(264.4)
IFRS net assets	364.2	369.7	428.7	430.7	453.4	477.0
EPRA net assets	364.2	369.7	428.7	430.7	453.4	477.0
Period-end basic & diluted number of shares (m)	351.4	350.9	402.8	402.8	402.8	402.8
Basic & diluted IFRS NAV per share (p)	103.6	105.4	106.4	106.9	112.6	118.4
Basic & diluted EPRA NTA per share (p)	103.6	105.4	106.4	106.9	112.6	118.4
CASH FLOW						
Net cash flow from operating activity	5.4	16.3	24.5	27.2	31.0	31.4
Cash flow from investing activity	(160.6)	(135.5)	(94.4)	(74.4)	0.0	0.0
Net proceeds from equity issuance	106.0	0.0	53.1	(0.0)	0.0	0.0
Net proceeds from C share issuance	46.6	0.0	0.0	0.0	0.0	0.0
Loan interest paid	(1.6)	(2.9)	(4.6)	(5.9)	(8.4)	(8.4)
Bank borrowings drawn/(repaid)	58.0	111.1	29.4	65.0	0.0	0.0
Share repurchase	0.0	(0.4)	0.0	0.0	0.0	0.0
Dividends paid	(10.1)	(17.8)	(18.8)	(20.9)	(21.5)	(22.0)
Other cash flow from financing activity	(1.2)	(3.5)	(1.1)	(0.6)	0.0	0.0
Cash flow from financing activity	197.8	86.6	58.0	37.6	(29.9)	(30.4)
Change in cash	42.6	(32.6)	(11.9)	(9.6)	1.1	1.1
Opening cash	54.8	97.3	64.7	52.9	43.3	44.4
Closing cash (excluding restricted cash)	97.3	64.7	52.9	43.3	44.4	45.4
Restricted cash	17.3	3.0	0.8	0.7	0.7	0.7
Cash as per balance sheet	114.6	67.7	53.7	44.0	45.1	46.2
Debt as per balance sheet	(67.4)	(165.0)	(194.9)	(260.9)	(261.9)	(262.8)
Unamortised loan arrangement costs	(1.1)	(4.1)	(3.6)	(2.6)	(1.6)	(0.7)
Total debt	(68.5)	(169.1)	(198.5)	(263.5)	(263.5)	(263.5)
Net (debt)/cash excluding restricted cash	28.8	(104.4)	(145.6)	(220.2)	(219.1)	(218.1)
Net LTV (net debt/investment property)	NA	22.1%	25.5%	33.9%	32.6%	31.3%
Company gearing (gross debt/gross asset value)	15.5%	31.1%	31.5%	37.7%	36.4%	35.2%

Source: Triple Point Social Housing REIT historical data, Edison Investment Research forecasts

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia