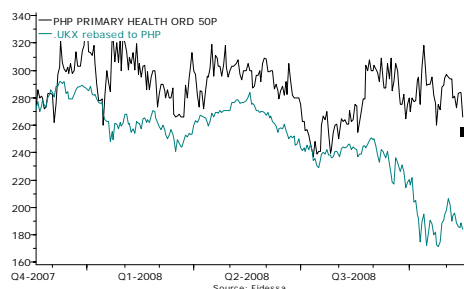


Primary Health Properties 264p
Interim Management Statement – Rock Solid
6.2% Yield

19 November 2008

Share Price: 264p



Source – Fidessa

12m High: 340p

12m Low: 246p

Market Cap: £87m

Shares in Issue: 33.59m fully diluted

NAV/Share: 373p at June 2008

Gearing: LTV 62%

Interest Cover: 2.1X

EPIC Code: PHP

Sector: Real Estate

Market: London Full List

Joint Brokers: Numis Securities

KBC Peel Hunt

PR: Bell Pottinger +44 (0)20 7861 3232

Website: www.phpgroup.co.uk

Description: PHP lets out on 18+ year leases GP surgeries to GP partnerships, which have their rent reimbursed by the public sector.

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The Interim Management Statement produced no surprises and we are happy with it.

Key points are:

- Rental growth continues. Rent reviews concluded so far in 2008 have averaged a 12% increase over the three year rent review cycle.
- There is still £55m of headroom on the borrowing facility, with term facilities not due for renewal until 2013 – as far out as it is possible for any business to get. PHP is in absolutely no danger of breaching its covenants. Both these points are hugely important at present.
- The reduction in interest rates very much reduces the risk (which was low in the first place) of PHP's callable swaps moving to a level where PHP could be exposed.
- While the statement says that yields have 'softened slightly', we believe that new lettings in the primary healthcare sector are still fetching yields of 5.75% - 6.0%. So the end-December property valuation will still leave the shares trading at a substantial discount to n.a.v. Nevertheless PHP is able to rent out its new properties at a starting yield that is significantly in excess of its cost of funding.
- There is clearly a move to larger properties as PHP grows in size, making administration simpler and also in line with the Government's adoption of 'super-surgeries'.
- The reduction in interest rates is a development much in PHP's favour, in spite of the superficial downside of 'mark to market' on the interest rate hedging portfolio. In particular, it makes the company's net worth on a DCF basis – the method we prefer for valuation of this company – higher. It also highlights the advantages of the rock solid 6.2% yield.

12m to end	Revenue (Rent etc)	Adjusted Profit	Adjusted EPS	P/E ratio	Divi	Yield	N.A.V.	Premium/ (Discount)*
December	£m	£m	p.		p.	%	p.	%
2006A	12.2	2.5	11.0	24.0	14.25	5.4	420	(37%)
2007A	15.7	4.2	13.8	19.1	15.75	6.0	369	(28%)
2008E	19.1	5.5	15.2	17.4	16.50	6.2	359	(26%)
2009E	20.8	6.5	18.2	14.5	17.00	6.4	359	(26%)

* With properties at market value

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Market Position

Primary Health Properties was the first company to specialise in the ownership of GP surgeries, and has stuck firmly to its original business model while other businesses have grown up and competed by taking risks either by attempting to develop non-property sources of revenue or taking development risk. The Primary Health Properties 'vanilla model' is now reaping benefits. By comparison, some competitors are struggling, either in terms of their business model or because they are weak financially.

Primary Health Properties will have opportunities to expand rapidly over the next two years, because competition in the marketplace will be less severe and at the same time the Government has committed to increased spending on the NHS, with upgraded premises and larger primary care buildings being at the centre of its strategy.

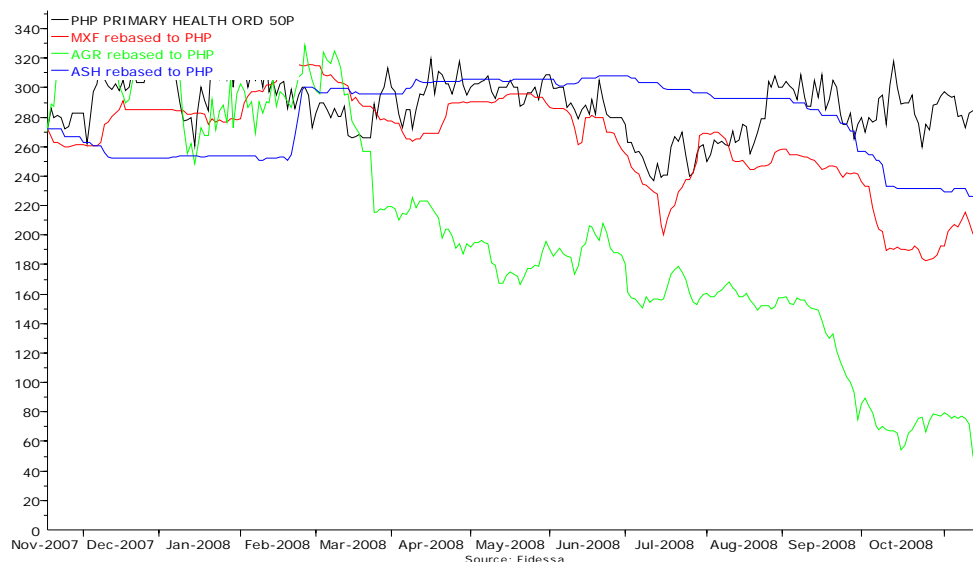
Our Estimates

We have factored a further small reduction in property values into our n.a.v. forecast for December 2008. This has reduced our n.a.v. per share estimate to 359p. We stress that on a DCF basis, the valuation would be at least 463p a share. Arguably, a DCF basis valuation could currently be rather higher because the 7% discount rate assumed in the June 2008 DCF valuation now looks unduly conservative.

We have increased our estimate of rental income to £19m, and our adjusted profit estimate to £5.5m. This will leave the dividend very slightly short of fully covered.

We expect the company to declare a loss on an IFRS basis, because of the 'mark to market' on the derivatives and the modest downvaluation on the properties that must pass through the official p & l account. We do not regard the IFRS profit/loss as meaningful.

Share Price Performance



— Primary Health Properties — Ashley House — MedicX Fund — Assura Grp

Of the four quoted companies that specialise in the ownership of GP surgeries, Primary Health Properties has been by far the best performer over the past twelve months. The reason for this is the risk-averse nature of its business model and the security of its dividend.

Primary Health Properties

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Management	Major Shareholders
<p>Non-Executive Chairman: Graeme Elliott</p> <p>Managing Director: Harry Hyman</p> <p>Property Director: Tim Walker-Arnott</p> <p>Property Management: A team of six based in Woking</p>	<p>Nexus Group (Harry Hyman) 6.5%</p> <p>James Hambro 6.5%</p> <p>Legal & General 5.1%</p> <p>AXA Framlington 4.9%</p> <p>Montanaro Fund Managers 4.7%</p> <p>Aberdeen Asset Management 4.6%</p> <p>Newton Investment Management 4.0%</p> <p>UBS Global Asset Management 3.1%</p>
Key Dates	Key Milestones
<p>Dividend Payment: 20 November 2008-11-18</p> <p>Next Full Year Results: March 2009</p>	<p>1994 Business Model put forward by Harry Hyman</p> <p>1995 Purchase of small portfolio and incorporation</p> <p>1996 Floated on AIM</p> <p>1998 Full Listing on the London Stock Exchange</p> <p>2002 Wanless Review proposing reforms in the NHS</p> <p>2007 Darzi Interim Report launching the reform of public primary care</p> <p>2008 (May) Largest acquisition, Port Talbot (£15.6m)</p> <p>2008 (June) Darzi Review expanding on initial reform</p>

Primary Health Properties

19 November 2008

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