

## Corporate# 9 October 2008

## Primary Health Properties PHP

### Data

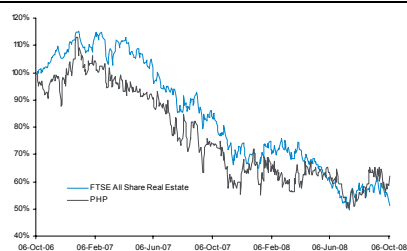
Price (p)	285
Number of shares (m)	33.6
Market cap (£m)	95.8
Index	FTSE SmallCap
Sector	Real Estate
Next News	Mar 09 – 08 Full Year Results

### Description

The group has a portfolio of primary health care properties that are leased to GPs, Primary Care Trusts, health authorities and other associated health care users in the UK

### Performance

Source: Datastream



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### Stats

Source: Company (historic), KBC Peel Hunt (estimates)

Year end Dec (£m)	FY06A	FY07A <sup>1</sup>	FY08E	FY09E
Net rental income (£m)	11.1	22.2	19.4	21.1
Net Income (£m)	15.9	16.8 (12.6)	(0.3)	
Dividend per share (p)	12.8	21.8	16.5	17.0
Investment props (£m)	199.6	282.5	314.4	338.3
Net assets (£m)	71.3	124.1	107.2	101.2
NAV per share (p)	392.2	369.4	319.2	301.2

<sup>1</sup>18 month period

### Government guaranteed rent roll.

Full occupancy, long leases and c90% of rents derived from government-linked agencies provide rare exposure to the medical practice sector. The government wants another 150 new centres to be delivered over just the next two years in order to cope with demand for the services from an aging population. A progressive rental outlook, including upward only rent reviews, and debt profile underpins a rare, externally managed success. Discount to low point is just **5.3%**, while dividend yield is above the sector average at **5.8%**. A DCF calculation of net worth updated to June last indicated an additional 104p on the NAV though this may reduce slightly if the 7.0% assumed discount rate but, more relevant, annual 3.0% rental increases achieved per annum, moderate.

The Company grows steadily by new property acquisitions and developments. The sole investment drawback is relatively small size – PHP deserves to progress.

### Investment case

PHP was among the first of the listed players to realise the benefits of Public Private Partnership (PPP) investment. Founder, Harry Hyman, has established the business to be one of the largest private providers of primary care property in the UK: advanced, purpose built medical properties in the community. The track record of the Company, averaging 12.5% compound annual growth (CAGR) in NAV and 16.1% CAGR in dividends in the last ten years, is evidence the strategy has been well executed and effective.

The proposition stands to benefit from the limited supply of new and modern primary care facilities which has traditionally been funded by the public sector. Thus the tenants have backing from the NHS and Primary Care Trusts, with 89% of the current rent roll derived from government linked agencies. Together with near full occupancy of 99.5% and long leases, the average unexpired being 18.5 years, PHP has surety over its income. The portfolio now stands at 112 properties, valued at £352.7m, and generating £18.6m in revenue.

We understand that the district valuers, neo-government officials, who arbitrate on net increases every three years have typically set review increases at +10%. The big question for the future is whether these review increases will be under real pressure to moderate in line with downward tendencies in mainstream property. The present outlook looks safe with absolutely no sign of over supply in either

medical property, affordability or investment offerings. With the rent review process spread evenly over the coming three years, partially weighted towards FY10/11, our best guess is that rental increases will moderate, though the +10% typical dividend growth can still be sustained at, say, +5% per annum.

The debt book is comfortable, notably £190m of £265m debt facilities is with RBS, and not maturing to 2013. Exposure to fluctuations in interest rates is managed using interest rate swaps that cover 95% of borrowings. The weighted average interest rate across all hedged activities is 5.6% including margin.

Developments are comparatively moderate, £26.9m committed, with modest headroom still available in the facilities.

PHP is the one of the rare exceptions of a well-run externally managed company: offering truly comfortable revenue, finance and demand metrics. Our low point FY09 NAV per share estimate of 301p, discount 5.3%, assumes the yield on the portfolio moves out to 6.0% and looks more than conservative on review of the assumptions. Whilst leverage is significant the Company has maintained positive yield on assets versus the cost of debt. The effect has been a meaningful fully covered dividend of 16.5p or 5.8%. Growth in rents will allow the Company to increase the dividend further whilst not compromising the future growth in the NAV. Currently trading at a small discount to prospective NAV, PHP has traditionally traded at par/small premium, the latter is justifiable given its covenant strength.

### The Move from Secondary to Primary Care Provision in the UK

#### Macro environment

Primary Care is the provision of health services where the practitioner has direct contact with patients and plays a central role in a community. Typically, these practitioners are GPs, pharmacists, dentists and midwives. Secondary Care is that provided by medical specialists who generally do not have first contact with patients, such as hospital consultants.

The NHS model had traditionally been one where GPs and other Primary Care providers were effectively a screening mechanism for Secondary Care providers based in very large general hospitals. Advances in technology and increases in the number of specialist skills of GPs and practice nurses has led to less dependence on the equipment and personnel at hospitals and a greater scope for diagnosis and treatment of more illnesses at Primary Care centres. Partly in recognition of this by Government as a more cost-effective method of delivery of healthcare services i.e. care in the community, and partly a greater public appetite for the continuity of care more easily obtained by Primary Care centres, there is a rare political will to expand Primary Care. This is funded in part by real increases in overall health spending, and a rationalisation of existing general hospitals into specialist centres of excellence.

Primary Care Trusts (PCTs) of which there are 152 in England, and their equivalents in Scotland and Wales, are the providers of Primary Care and community health services in the UK with three main functions:

- Managing and integrating all medical, dental, pharmaceutical and optical primary services.
- Improving the health of the community by strategic planning.
- Commissioning some Secondary Care.

The wide remit of the PCTs has resulted in their responsibility for more than 85% of the NHS budget, itself some £111bn for the Budget year 2008-09.

A large number of Primary Care centres and polyclinics will be constructed in the UK as the NHS continues its investment programme. As a result, PHP will be well-placed to take advantage of the flow of new investment opportunities.

112 properties, £353m market value and rising

**Portfolio**

Since inception in 1994 PHP has acquired a portfolio of 112 primary care centres, including 6 sites currently under development, with a current market valuation of £353m last interim (30 June 2008). The average unit is around 10,500 sq ft in size and has a low starting rent relative to prime property classes of £16 per sq ft. The current footprint spans the length of the UK though there is a clustering effect in the South East, London, Midlands, North West and Yorkshire regions where 85% of the current rent roll is generated.

**Figure 1: PHP footprint**

Source: Primary Health Properties



89% of rents derived from government-linked agencies

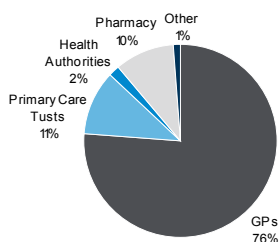
At present 89% of rental income is derived from GP Practices or Primary Care Trusts (both NHS underwritten) while the remainder comes from local pharmacies that are invariably attached or adjacent to the care centre. Because a large portion of rental income is generated from government-linked tenants this gives surety over future revenues.

99.5% occupancy and an average lease length of 18.5 years

Primary care property is a specialised market, faced with a lack of supply, and invariably has limited alternative use, culminating in the property-type displaying strong metrics. This is evident in PHP's low vacancy rate of just 0.5%, while the average lease length is 18.5 years with 83% of leases greater than 15 years.

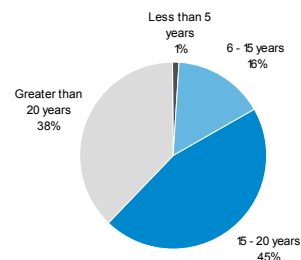
**Chart 1: Rental income by tenant type**

Source: Primary Health Properties Plc



**Chart 2: Break down of lease length**

Source: Primary Health Properties Plc



### Upward only triennial rent reviews

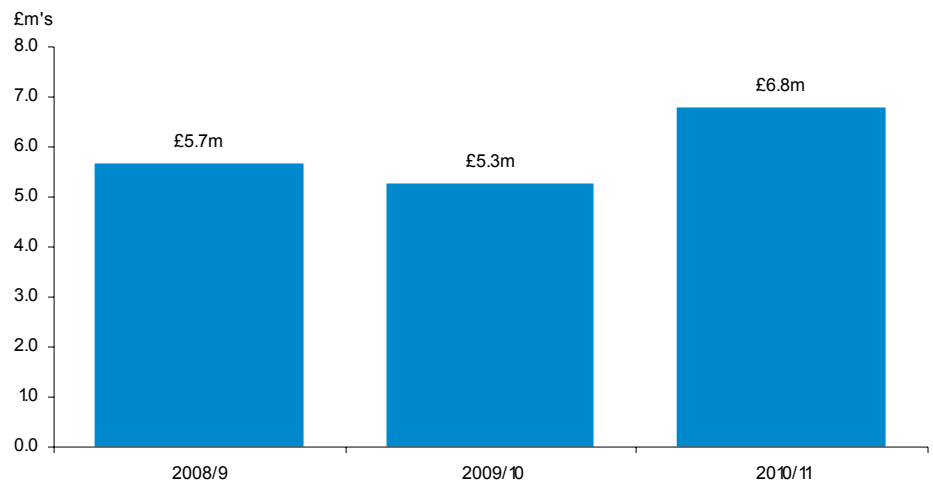
The lease structure allows for periodic upward-only rent reviews which are carried out triennially and completed in consultation with the district valuer, whom is employed by the NHS, and the landlord. The rent review takes account of construction cost inflation as well as recent rent reviews at other comparable medical properties. In recent times construction cost inflation has exceeded RPI and as a result PHP has a proven history of achieving sizable uplifts in rents, averaging 3.65% per annum.

### Smoothing of rent review process

The rent review process is spread evenly over a three year period with c.£6m of the £18.6m annual rent roll reviewable each year. This not only permits better management of the review process by PHP but also results in a predictable stream of revenues from incremental increases in rental income. The growth in rents also supports the valuation of investment property, particularly when adverse yield shift is experienced.

**Chart 3: Rent reviews by annual rent roll**

Source: KBC Peel Hunt

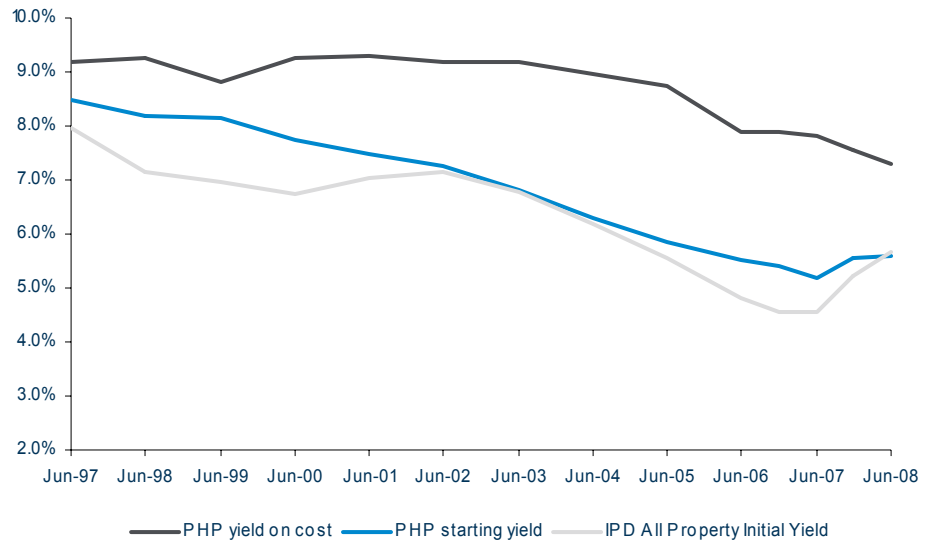


### Primary care property – not susceptible to the fluctuations of the wider commercial property market

Given the characteristics of primary care property the sector is largely independent of the fluctuations that occur in the wider commercial property market. The result of this is that the starting yield on PHP's portfolio has not experienced the same amount of yield compression in recent years as the general UK commercial property market nor is it likely to require the same degree of outward correction. The current yield on the portfolio is 5.55% having increased from a low of 5.2%, an expansion of 40 bps, which is a downward revision of property prices of 7.7%. This still compares surprisingly favourably to the IPD All Property Initial Yield which for the same period, 30 June 2007 to 30 June 2008, increased from 4.57% to 5.68%, a movement in property values of 24.3%, as shown in Chart 4. However, IPD is usually behind realities.

**Chart 4: PHP yields versus IPD All Property Initial Yield**

Source: Primary Health Properties Plc, Investment Property Databank



DCF yields a higher valuation of 104p per share on top of the current NAV

A DCF valuation of the investment portfolio, separate from the Red Book valuation, based on the assumptions outlined in Table 1 yields a substantially higher NAV for PHP. The DCF valuation updated at 30 June 2008 valued the portfolio at £355.4m, which is £35.8m or 104p per share more than the reported NAV of the Company.

**Table 1: DCF valuation assumptions**

Source: Primary Health Properties Plc

Rental growth pa	3%
Residual value growth pa	1%
Discount rate	7%

### Financing

The company is well-served by existing credit lines, as shown in Table 2 below, with no significant debt maturing for five years. Interest rate risk is mitigated by hedges on 95% of all loans, at a blended average rate of 5.6% including margin. Of the £265m facilities agreed, £203m was drawn down at end-June, which with cash reserves, leaves significant investment firepower of £66m, enabling the company to continue its acquisition/development strategy. We note management are also actively in discussions to secure further lines of credit.

**Table 2: Banking Facilities and Headroom**

Source: Primary Health Properties Plc

Provider	Size	Type	Maturity
RBS	£140m	Bullet	2013
AIB	£50m	Bullet	2013
Abbey Santander	£65m	Bullet	2013
RBS	£10m	Overdraft	1-year facility
Total facilities	£265m		
Of which drawn	£203m		
Cash	£4m		
<b>Acquisition headroom</b>	<b>£66m</b>		

Gearing (net debt/equity) is higher than the REIT average at 158%, but there is comfortable headroom against banking covenants.

- Loan-to-value covenant 75% vs 62% drawn at end-June
- Interest cover covenant 1.3x vs 2.0x actual at end-June

Other compliance tests are those common to all REITs in order to maintain REIT status, and the company passes these tests comfortably.

### Company structure

PHP was originally set up as an externally managed PLC in March 1995 and is jointly operated by Nexus PHP Management Limited (Nexus) and J O Hambro Capital Management Limited (JOHCM). JOHCM are responsible for providing accounting and administrative services to the Company as well as acting as the Company Secretary. Nexus provide property and financial expertise and manage the day to day running of the portfolio including collection of rents, insurance, maintenance, rent reviews, lettings and project management of new developments.

### Externally managed

### Management and performance fee structure

The management fee structure is such that the joint managers receive a base fee calculated as 1% of the first £50m of the Group's gross assets and 0.75% thereafter, subject to a minimum payment of £120,000 per annum. To incentivise the managers a performance fee component is also included as part of the Management Agreement. This entitles the joint managers to receive a incentive fee equal to 15% of any excess performance over an above an 8% total return hurdle - total return is defined as the stated increase in net asset value for the period adjusted for any deferred tax and REIT conversion charge and adding back gross dividends paid during the period. The management agreement also provides for any subsequent reduction in net asset value to be recovered before any further incentive fees are paid. Management and performance fees paid in the 2007 calendar year totalled £4.0m of which £1.8m related to incentives earned.

### Conversion to REIT status

PHP took advantage of a change in the UK tax legislation for property companies and converted to a Real Estate Investment Trust (REIT) on 1 January 2007. The change in tax status to a REIT means both income and gains generated from the Group's investment property are tax exempt. To satisfy the criteria of REIT the Company must demonstrate compliance with a number of guidelines to the HMRC annually as well as pay a one-off conversion charge spread over four years equating to 2% of the current market value of property assets. To date PHP has paid £0.7m of the £5.2m REIT conversion charge.

## **Management**

### **Graeme Elliot, Non-Executive Chairman**

Formerly Executive Vice Chairman of Slough Estates, Graeme was appointed as Chairman to PHP in February 1996.

### **Harry Hyman, Managing Director (Shareholding 6.52%)**

Harry Hyman is Managing Director of Nexus Group Holdings, a provider of advice and financial services to companies with an emphasis on health and property. Nexus PHP Management, a subsidiary of Nexus Group, is joint manager to the Company providing property management services (rent collection, insurance, alterations) and conducting rent reviews, lease re-gearing and renewals and supervision of developments for PHP.

Harry has vast knowledge of both the property and health sectors having spent 10 years working for Baltic PLC where he was involved in extensive property development and structuring mezzanine property funding. Having founded Primary Health Properties PLC in 1994 Harry continues to play a pivotal role in the Group's strategy as well as day to day management of the Company.

Harry is a Chartered Accountant having qualified at Price Waterhouse, he is also a member of the Association of Corporate Treasurers and a non-executive director to a number of other public companies.

### **James Hambro, Non-Executive Director (Shareholding 6.49%)**

James Hambro is Chairman of J O Hambro Capital Management, the joint manager and Company Secretary of PHP. J O Hambro Capital Management provides administrative and accounting services to the Company. James was appointed to the board in February 1996 and is also a director of Hansteen Holdings and Wichford Property Management.

### **Tim Walker-Arnott, Property Director**

Previously a property director at NHP, Tim joined Nexus in January 2006 and has over 30 years experience as a Chartered Surveyor having worked in fund management, development, property financing and asset management. Tim is responsible for the acquisition and management of the PHP portfolio.

### **Andrew Birch, employee of Nexus PHP Management**

Andrew joined Nexus in February 2007 and is responsible for all aspects of the day to day management of the PHP property portfolio. Andrew has extensive experience of property management, acquisition, disposal and development throughout the UK for national retailers and in the healthcare sector and has been a member of the Royal Institution of Chartered Surveyors for over 16 years.

### Financial results to date

The Company's stated objective is to increase NAV per share and increase the dividend paid by paying out substantially all available distributable profits: which has been delivered in each of the 14 years since floatation.

To date PHP has amassed a portfolio of 112 medical properties, valued at £352.7m. The annualised rent roll of the Company is currently £18.6m though this is likely to rise by year end due to delivery of new centres and a number of rent reviews due to be completed in the latter half of the year.

### Strong trading results

The recent interim results from PHP confirmed the defensive characteristics of the Company having produced an adjusted NAV per share of 374p, an increase of +1.4%. Though PHP did experience some outward yield shift in the first half of the year this was marginal and was mostly offset from mark to market gains in interest rate swaps as well as sizable gains in rental income, having achieved an 11.9% increase (spread over three years) in rents renewed in the six months to 30 June 2008. Continued growth in rental revenues have meant the Company have been able to steadily increase the dividend which currently stands 16.5p per share. At today's share price PHP is yielding 5.8% and compares favourably against the FTSE All Share Real Estate Index yield of 4.73%, placing the stock in the upper quartile of the real estate sector in terms of dividend payout. Whilst we note the interim dividend of 8.25p was uncovered, rental income from the eight medi-centres opened in H108 as well as further openings in H208 should provide enough headroom for the Company to pay a near covered dividend.

**Table 3: Five year financial summary**

Source: Primary Health Properties Plc

	UK GAAP		IFRS			H108
	FY03	FY04	FY05	FY06	FY07	
	Jun	Jun	Jun	Jun	Dec	Jun
	12 months		12 months		18 months	
Annualised rent roll	6.9	8.4	10.0	11.3	16.2	18.6
Profit after tax	2.0	2.5	12.7	15.9	-12.8	-0.7
Dividend per share (p)	10.0	11.0	12.0	13.5	15.0	8.3
No. of properties	59.0	68.0	86.0	83.0	107.0	112.0
Investment properties	96.3	131.1	166.9	224.8	324.2	352.7
Net assets	37.9	49.9	73.6	71.3	124.1	125.4
Adjusted NAV per share (p)	200.6	243.7	314.6	392.4	369.4	373.4

### Impressive track record

Over five years the Company have near doubled the number of properties, while both the annualised rent roll and the valuation of the portfolio have roughly tripled. The majority of the growth has come from a combination of acquisitions and completed developments with PHP delivering on average 8 medi-sites per annum. That said the "easy credit period" has resulted in a flood of investment into the UK commercial property market. Consequently, increased demand for commercial property has meant a substantial compression in yields and appreciation in

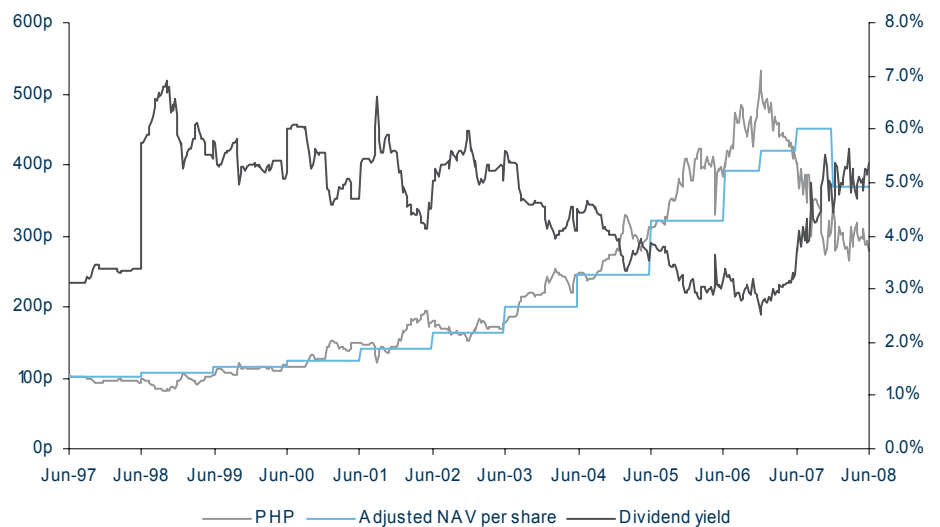
property prices. The implication for PHP has been a significant rise in the average site value from £1.63m to £3.15m, an increase of 93.3% in five years.

Long term dividend and NAV growth

In the last eleven years the dividend has increased from 3.2p to 16.5p and increase of 416%, or CAGR of 16.1%. Adjusted NAV per share for the same period increased from 102.0p to 373.6p producing compound annual growth of 12.5%. Historically the share price has traded at between par/small premium to NAV for much of the life of the Company though a shift in sentiment of UK commercial property in early 2007 has since seen the share price lag the NAV more recently. PHP currently trades at a discount to its historical NAV of 26.0% and compares favourably against other listed property companies which traditionally trade at a larger discount, c.30% to 50%. The relative premium rating of PHP we think is justified given the Company's niche focus, low vacancy rate, management expertise, and sector specific metrics including covenant strength of long leases combined with government backed income.

Chart 5: Historic share price, NAV per share and dividend yield

Source: KBC Peel Hunt

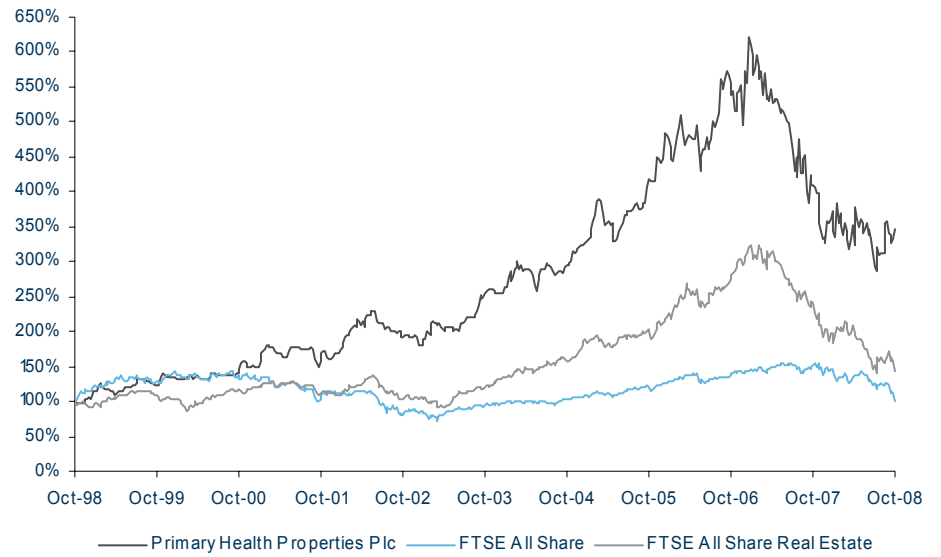


PHP relative share price performance

Shares in PHP have outperformed both the sector and indeed the market (FTSE All Share) in the last 10 years. More recently, the rise in interest rates, reduction in capital returns and subsequent repricing of the UK commercial property market have meant sentiment for listed propco's has waned. The effect has been a decline in the share performance of the sector as a whole. Consequently, the average real estate company has experienced approximately a -49.5% retraction in its share price since the start of 2007. PHP shares have fared better having declined -43.8%.

**Chart 6: Share price relative to FTSE All Share and FTSE All Share Real Estate Index**

Source: Datastream



## Valuation

### Capital growth assumptions

#### Balance Sheet

It is unlikely PHP will be unaffected by the current repricing of UK commercial property. Albeit sector metrics including limited supply and rental growth are likely to support the valuation in the event serious adverse yield shift is experienced. With this in mind we have factored into our forecast for the Company a reduction in a capital values of -5.7% for H208 and a further -2.0% in FY09. This implies the starting yield on the portfolio moves out from 5.55% to 6.0% versus an all in cost of debt of 5.6%.

**Table 4: Portfolio assumptions**

Source: Primary Health Properties Plc (historics), KBC Peel Hunt (estimates)

	H108A	FY08E	FY09E	FY10E
Investment properties	319.1	-5.7%	-18.2	-4.4%
Other property assets	33.6			
<b>Uplift from revaluation</b>		<b>-18.2</b>	<b>-13.2</b>	<b>8.6</b>
Plus: Additions		13.5	30.0	15.0
Less: Disposals		0.0	0.0	0.0
Plus: Maintenance capex		0.0	0.0	0.0
<b>Total investment property</b>	<b>352.7</b>	<b>348.0</b>	<b>364.8</b>	<b>388.4</b>

### Pipeline/Capex

At interim the Company disclosed forward commitments for future acquisitions and developments totalling £26.9m. We have assumed that at a minimum half of the current pipeline is completed in H208. Budgeted capex beyond 2008 is based on PHP's average historic spend of between £25m to £30m per annum. Therefore we have factored in £30m of capex for FY09 – equivalent to 8 medi-sites, and £15m the year after.

Because the majority of the portfolio comprises new and modern premises we have not factored any significant maintenance capex into our forecasts. Likewise we do not expect management to dispose of any properties in the interim.

### Future funding

To fund all future acquisitions/developments we have assumed management finance the transactions by utilising the current headroom available on PHP's committed debt facilities, c£65m. Any additional capex/acquisition activity over and above our forecasts will either require a refinancing/renegotiation of the Company's borrowings, a secondary placing of capital or alternatively bringing in a JV partner or creating a fund and subsequently selling part of the finish product into the fund.

### NAV effect

Given the assumptions outlined, we are forecasting net assets to decline some -19.1% to our cycle low point, assumed to be FY09, to 301.2p per share. This is a 72p reduction from 373.4p. Thereafter (FY10) marginal growth of the portfolio is anticipated. Thus we have factored in a 3% increase in the headline valuation of investment property resulting in an adjusted NAV of 328.7 per share.

### Rental growth

#### Revenue statement

Our revenue statement assumptions assume rental income will increase by 3% per annum. This estimate is based on PHP achieving a 3% CAGR in rent reviews on approximately a third of the portfolio each year. Therefore the majority of leases

are reviewed at least once every three years. The estimated uplift from rent reviews over the forecast period is £1.1m and excludes any uplift in rental income from forecast completions and acquisitions which are expected to add a further £2.9m to the revenue line. Based on these estimates net rental income is expected to be £23.0m for end FY10 versus the current rent roll of £18.6m.

#### Fees and costs

There are little direct property costs associated with PHP's portfolio therefore a large portion of the cost base is related to managing the business. Management and performance fees, director's fees, rent review costs, and professional fees typically account for 75%+ of administrative costs. Within this management and performance fees are by far the largest costs – account for 55% to 75% of the cost base. Given the impact adverse yield shift will have on the valuation of the portfolio we have assumed no performance fee will be paid over the forecast period. The result of this is c.£2.6m reduction in costs while the management fee will also shrink in line with the fall property values. Our estimate of administrative costs is therefore based on annualising the H108 interim expenses and applying conservative inflation of around 2% per annum. Consequently, administrative expenses should increase from £4.3m end FY08 to £4.5m in FY10 though are likely to remain constant as a percentage of revenue (c.20%) during the forecast period.

#### Borrowing costs

At interim PHP had borrowings of £202.7m of which the Company had fixed rate cover for 95% of the debt at a weighted cost of 5.6% fixed for an average period 6 years. Given the wide ranging views on the direction of medium term interest rates we have assumed the Company finances all further funding at the current blended rate. With future capex funded solely by debt, net borrowings will increase over the forecast period along with the interest cost. Thus we are forecasting financing costs to increase from £10.5m (FY08) to £12.7m in FY10.

#### Dividend per share

PHP's conversion to a REIT requires the Company to pay out 90% of the REIT-able profit. Dividends paid in the past have implied the Company already distributes a large percentage of adjusted EPS and it is unlikely management will deviate from this policy going forward. Therefore we have factored in a full year dividend for FY08 of 16.5p per share based on annualising the dividend declared at interim. Beyond FY08 the dividend will increase incrementally in line with earnings.

#### Recurring pre tax profit

The above assumptions give rise to recurring pre-tax profits of £5.6m in FY08, £5.7m (+1.7%) in FY09, and £6.4m (+12.3%) in FY10. The effect on net income once property revaluations is considered is substantially less with PHP expected to run at a loss in FY08 and FY09 of -£12.6m and -£0.3m respectively. Providing the commercial property market normalises in FY10, the Company should post a small revaluation surplus and subsequently a profit of £15.1m.

**Table 5: Financial Statements**

Source: Company (historic), KBC Peel Hunt (estimates)

Year ended 31 December	FY06A Jun 12 months	FY07A Dec 18 months	H108A Jun 6 months	FY08E Jun 12 months	FY09E Jun 12 months	FY10E Jun 12 months
<b>Per share data</b>						
NNNAV	314.5	369.4	373.4	319.2	301.2	328.7
Adjusted NAV	392.2	369.4	373.4	319.2	301.2	328.7
Basic EPS	70.3	59.3	(2.1)	(37.7)	(1.0)	45.1
Adjusted EPS	15.3	12.8	8.0	16.6	16.9	18.8
Dividend	12.8	21.8	8.3	16.5	17.0	17.6
Number of shares	24.3	33.6	33.6	33.6	33.6	33.6
<b>Key ratios</b>						
NNNAV discount	(9%)	(23%)	(24%)	(11%)	(5%)	(13%)
Adjusted NAV discount	(27%)	(23%)	(24%)	(11%)	(5%)	(13%)
Dividend yield	4.5%	7.6%	5.8%	5.8%	6.0%	6.2%
Gearing	152%	125%	158%	198%	239%	233%
Interest cover	1.5x	1.1x	1.1x	1.4x	1.4x	1.5x
Payout ratio	83%	170%	103%	100%	100%	90%
<b>Income Statement (£m)</b>						
Net operating income	11.1	22.2	9.2	19.4	21.1	23.0
Admin costs	(2.7)	(7.6)	(2.1)	(4.3)	(4.4)	(4.5)
<b>Recurring EBITDA</b>	<b>8.4</b>	<b>14.6</b>	<b>7.1</b>	<b>15.1</b>	<b>16.8</b>	<b>18.5</b>
Depreciation	-	-	-	-	-	-
Finance income	0.3	2.2	1.9	1.1	0.6	0.6
Finance expense	(5.7)	(13.0)	(6.4)	(10.5)	(11.6)	(12.7)
<b>Recurring pre tax profits</b>	<b>3.0</b>	<b>3.7</b>	<b>2.6</b>	<b>5.6</b>	<b>5.7</b>	<b>6.4</b>
Exceptional items	0.4	(17.4)	1.6	-	-	-
Revaluation gain/(loss) on property	15.0	4.9	(4.7)	(18.2)	(6.0)	8.8
Tax	(2.5)	25.6	(0.2)	(0.1)	(0.1)	(0.1)
<b>Net Profit</b>	<b>15.9</b>	<b>16.8</b>	<b>(0.7)</b>	<b>(12.6)</b>	<b>(0.3)</b>	<b>15.1</b>
<b>Balance Sheet (£m)</b>						
Investment properties	199.6	282.5	319.1	314.4	338.3	362.2
Cash	4.0	3.9	4.0	4.0	4.0	4.4
<b>Total assets</b>	<b>210.2</b>	<b>298.2</b>	<b>340.8</b>	<b>336.1</b>	<b>360.1</b>	<b>384.3</b>
Total debt	(112.4)	(159.2)	(202.7)	(216.2)	(246.2)	(261.2)
Total liabilities	(138.9)	(174.1)	(215.4)	(228.9)	(258.9)	(273.9)
<b>Shareholders equity</b>	<b>71.3</b>	<b>124.1</b>	<b>125.4</b>	<b>107.2</b>	<b>101.2</b>	<b>110.4</b>
<b>Cash Flow Statement (£m)</b>						
<b>Operating cash flow</b>	<b>8.8</b>	<b>11.9</b>	<b>5.9</b>	<b>5.6</b>	<b>5.7</b>	<b>6.3</b>
Net working capital	0.2	(1.6)	(0.8)	-	-	-
Tax	(0.0)	(0.3)	-	(0.1)	(0.1)	(0.1)
<b>Investing cash flow</b>	<b>(20.4)</b>	<b>(81.6)</b>	<b>(42.9)</b>	<b>(13.5)</b>	<b>(30.0)</b>	<b>(15.0)</b>
Acquisitions/disposals	(18.1)	(48.5)	(35.0)	(13.5)	(30.0)	(15.0)
Capital expenditure	(2.6)	(2.7)	-	-	-	-
<b>Financing cash flow</b>	<b>14.5</b>	<b>69.5</b>	<b>37.1</b>	<b>8.0</b>	<b>24.3</b>	<b>9.1</b>
Net borrowings	24.0	88.5	54.8	13.5	30.0	15.0
Dividends paid	(2.8)	(6.0)	(2.8)	(5.5)	(5.7)	(5.9)
<b>Net cash</b>	<b>2.9</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0.0</b>	<b>(0.0)</b>	<b>0.4</b>

**Recommendation structure distribution at 30 September 2008 June of companies under coverage**

		No	%
Buy	> +20% expected absolute price performance over 12 months	72	33%
Add	+10% to +20% expected absolute price performance over 12 months	0	0%
Hold	+/-10% range expected absolute price performance over 12 months	48	22%
Reduce	-10% to -20% expected absolute price performance over 12 months	4	2%
Sell	> -20% expected absolute price performance over 12 months	16	7%
Corporate#		80	36%

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Company	Analyst	Shareholding (%) held by			during the last 12 months	
		Company in KBCPH (>3%)	KBCPH in Company (>3%)	makes a market in this company	is broker to this company	has received compensation from this company for the provision of investment banking services
Primary Health Properties				X	X	X

**Recommendation history (last 12 months)**

Company	Date	Rec
Primary Health Properties	26 Jul 05	Corporate

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Please note that the share price used in this note was the mid-market price at the open on 9 October 2008.