

Primary Health Properties – Meeting Note

30 September 2008

Event	Management present
Company visit	Harry Hyman, MD

Investment summary: Safe harbour in a storm

PHP is a rare bastion of stability in a sector currently characterised by extreme volatility. It is one of the least complex UK REITs; a pure investor in an asset class in short supply, with revenue visibility based upon initial leases of 21-24 years and an average unexpired lease, across the portfolio, of c 19.5 years. Rents are reviewed every three years, terms are upwards only and the typical growth rate is 3-4% pa.

Secure business model

The business model pivots upon investment in primary care property, an asset class with exceptionally defensive characteristics. Its portfolio is 99.5% let, 89% to GPs and the NHS ie quasi UK government risk. It undertakes no own development.

Riding the wave: Near-term upgrade of UK primary care estate

Reform of the UK's public primary care system underpins the outlook. The Wanless Report (2002) predicted that the entire UK primary care estate of c 11,000 GP surgeries would be upgraded or replaced over the next decade at a cost of £5.9bn. Since 2001, over 3,000 premises have been replaced or substantially modified.

Positive revenue, valuation and dividend outlook

There are two components to the valuation: (1) a safe 5.8% dividend yield and prospect of growth based upon rents growing at an underlying 3-4% pa. Income profile is secure ie some 83% of the current rent roll is still payable in 2023; (2) NAV of 374p/share, supported by external valuations of a portfolio of 112 primary care centres (six in development) at £353m at 30 June 2008. Each property is assessed individually – NAV might be 5-10% higher for the portfolio as a single lot.

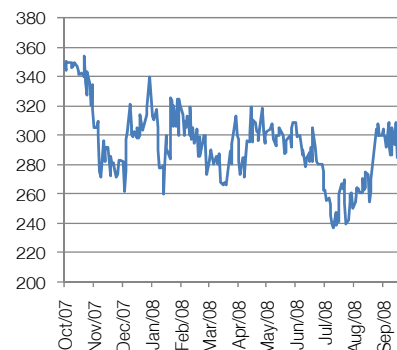
Valuation: Attractive 29% discount to interim NAV

The shares look attractive on the current 29% discount to mid-year NAV and prospective yield of c 6%. The outlook is supported by recent rent reviews and further enlargement of the portfolio. Group debt was £203m at the interim stage, (rent/interest cover 2.0x), with access to facilities of £265m, mainly term loans to 2013. Debt is subject to maximum LTV of 75% (62% at end June 2008).

Consensus estimates						
Year End	Revenue (£m)	PBT (£m)	NAV (p)	DPS (p)	NAV disc (%)	Yield (%)
06/06	11.1	18.4	421	12.75	37	4.5
12/07 ^{18mths}	22.2	(3.7)	369	21.75	28	7.7
12/08e	19.0	5.5	340	16.50	22	6.2
12/09e	21.5	5.75	334	17.00	21	6.4

Price 265.0p
Market Cap £89m

Share price graph



Share details

Code PHP
Listing FULL
Sector Real Estate
Shares in issue 33.6m

Business

PHP is a dedicated healthcare REIT. Its strategy is to generate rental income and capital growth through investment in UK primary health property. Its property portfolio is leased principally to GPs, PCTs, Health Authorities and other associated health users.

Bull

- Robust business model
- Revenue visibility and covenants
- Outlook for rent and dividend growth

Bear

- Valuations sensitive to yield shifts
- High gearing
- Single asset class

Analyst

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