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UK Real Estate Sector

18 August 2009

NEWS & VIEWS

Primary Health Properties (PHP.L u/r) - Interims to June: attractive risk weighted dividend

- 6/09 EPRA NAV 290p (Dec'08 318p) - as expected, and probably the last movement south. We think Consensus Cycle Low was c284p, so at price 298p, the shares trade on a small premium to the June EPRA NAV.
- Interim dividend 8.5p, in line with expected 17p for the year (yield 5.7%)
- Acquisition or delivery of £6.9m assets
- Though no explicit comment on how short-term rental growth could come under deflationary pressures, management reassures on medium term prospects citing healthcare spending at the heart of Govt & Opposition's plans, and PHP's successful High Court judgement which encourages a fairer, more transparent rent review process.
- Reviews in 2008 showed +12% (ie c 4%pa annualised) and H1'09s actual rental growth achieved is recorded as 'not materially different from....2008" - we agree, a good result!
- Valuation: yields rose slightly in H1 taking the initial yield to 6.06%, reversionary 6.25%, producing overall -1.9% valuation decline. Management believes that "further material weakening is unlikely."
- PHP's shadow, DCF valuation of its portfolio (which assumes 3% pa rental growth, and 1% pa growth in residuals) produces a very large theoretical uplift to NAV as a sort of present-value of likely future rental growth viz +176p, ie a shadow June NAV of 466p (disc 36%), opening a somewhat academic debate on discounting rental growth risk (PHP use 7% discount rate).

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