

Morning Note 18 August 2009

Primary Health Properties PLC (PHP)

Buy

Data

Price	298p
Market cap	£105.1m
Index	FTSE SmallCap
Sector	Real Estate

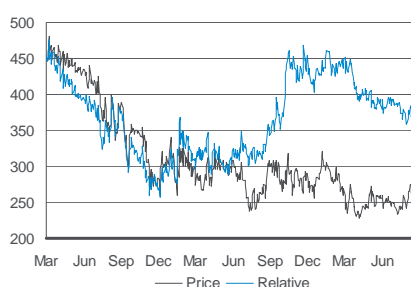
Stats

Source: Company accounts, KBC Peel Hunt estimates

Y/E Dec	2008A	2009E Old	2009E New
Adj PBT (£m)	5.5	6.5	-
Adj EPS (p)	18.8	18.4	-
DPS (p)	16.5	17.0	-
Adj. NAV (p)	317.6	255.3	-

Performance

Source: Reuters



Analyst

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Interim results in line – FY forecasts unchanged
The valuation of PHP's portfolio again showed its defensive qualities as it continued to outperform the wider property market during the re-pricing phase of the property cycle.

Description

- Primary Health Properties (PHP) is the largest listed propco with the longest track record in the public arena focused on investment into modern primary care facilities.

Results

- The interim results confirm the defensive qualities of both the revenues and the valuation of PHP's investment properties.** This is underpinned by a portfolio that is fully let, has an average lease length of over 17 years, and 90% of rents effectively backed by the NHS/quasi-government agencies.
- EPRA (Adjusted) NAV per share fell by 27.7p (-8.7%) in the first six months to 289.9p per share.** The fall in net assets was the result of a 1.9% decline (outwards yield shift of 9bps) in the property valuation. We note this compares favourably to IPD and indeed the Leaders, which recorded an average fall in value of 13.9% and 12.0% plus, respectively, for the same period. The average initial yield on the portfolio as at end-June was 6.06%.
- Although there was a reduction in the EPRA NAV, a £9.1m positive mark-to-market on interest rate swaps meant the Triple Net NAV of the company increased by 4.5% (10.6p) to 243.7p per share.**
- A three-yearly rent review means PHP benefits from approximately a third of its portfolio undergoing this process each year. Rental uplifts from the review process have averaged 4%/year with the company stating "*actual rental growth achieved in the first half of the year has not been materially different from*" prior periods.
- As expected, the company has increased the half-year dividend by 0.25p (3%) to 8.5p per share.** This equates to an annual dividend of 17.0p, or a yield of 5.7%.
- Financing and headroom within banking covenants is largely unchanged** compared with the full year results, with £207m of net borrowings and a LTV of 66% against a covenant of 75% reducing to 70% in March 2010.

Forecasts

- Our 2009E forecasts remain unchanged** with a forecast EPRA NAV per share of 255.3p – assumes a cycle low-point yield on the portfolio of 6.3%.
- Our adjusted EPS and dividend estimates remain unchanged at 18.4p and 17.0p respectively.

Comment

The tight pricing over medical properties demonstrates not only the quality of the tenant covenants but also the demand for such assets. Consequently, PHP has outperformed during the property cycle's re-pricing phase, both in valuation terms and in share price performance compared with the sector. With the shares having rallied over 20% in the last month and the stock still offering a dividend yield some 100bps better than the sector average, we maintain further upside may be had.
Buy.