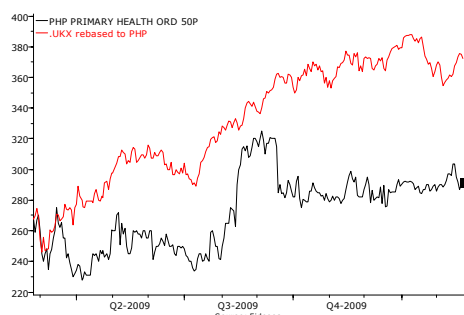


Primary Health Properties 291p

FLASH: Good Results

25 February 2010

Share Price: 291p



12m High: 325p

12m Low: 228p

Market Cap: £180m

Shares in Issue: 61.5m

NAV/Share: 280p on EPRA basis

Gearing: 49% at 12/09

Interest Cover: 1.9X

EPIC Code: PHP

Sector: Real Estate

Market: London Full List

Brokers: Numis Securities/Peel Hunt

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

Website: www.phpgroup.co.uk

Description: PHP lets out GP surgeries to GP partnerships on long term leases. The rent GPs pay is reimbursed by the public sector.

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.Full year results show:

- Rental and related income £0.5m above our estimate at £21.3m
- Adjusted profit £1.1m above our estimate at £7.8m
- Adjusted eps 3.8p above our estimate at 20.2p/share
- Dividends declared for the year of 17.25p/share, as we estimated.

Part of the reason for the stronger than expected performance has been a reduction in admin costs, taking the Operating Margin up from 78.3% to 85.9%. This was aided by economies of scale – PHP raised £60.7m of additional equity capital during the year. PHP will not be able to maintain the operating margin at this level, partly because there was a £0.4m non-recurring write-back of over-provision on the Cathedral acquisition, but it won't be far off because the management agreement specifies lower percentage fees as the portfolio size grows. (There is also a performance incentive but this has not been triggered in either of the last two years and is unlikely to be triggered in 2010 either.)

Our current year estimate is based on the portfolio value rising to c. £450m by the end of the year, allowing Primary Health Properties to take advantage of the difference between the current ten year funding rate of <5% and the 6.25% yield it can obtain on its new properties. As the portfolio value is already over £400m and further acquisitions are under negotiation, we do not see this being a problem.

A rise in Net Asset Value Per Share would be triggered by a yield shift, and there is already some evidence of this, with one of PHP's competitors in this space using a 5.8% yield basis rather than PHP's 6.0%. A 0.2% yield shift of this nature would add £15m to the NAV, equivalent to an additional 24p/share.

The only negative we can find is the slowing of rental growth, which was 3.12% p.a. equivalent last year vs >4% twelve months ago. We expect rental growth to continue ahead of inflation, however.

We are pleased with these numbers.

Y/E	Group Sales	Adjusted Profit*	Adjusted EPS **	P/E ratio	Divi #	Yield
December	£m	£m	p.		p.	%
2007A	15.7	4.2	13.3	21.8	15.18	5.2
2008A**	19.7	4.6	14.0	20.8	15.91	5.5
2009A	21.3	7.8	20.2	14.4	17.25	5.9
2010E	26.0	11.0	18.0	16.2	17.50	6.0

* EPRA basis ** Restated # ex-rights adjusted

Primary Health Properties

25 February 2010

Management	Major Shareholders																
<p>Chairman: Graeme Elliott</p> <p>Managing Director: Harry Hyman</p> <p>Property Management: A team of six based in Woking.</p>	<table> <tr> <td>Aberdeen Asset Management</td> <td>5.0%</td> </tr> <tr> <td>Harry Hyman (inc. Nexus Group)</td> <td>6.1%</td> </tr> <tr> <td>Axa Framlington</td> <td>4.7%</td> </tr> <tr> <td>Montanaro</td> <td>4.5%</td> </tr> <tr> <td>Blackrock</td> <td>4.1%</td> </tr> <tr> <td>Legal & General</td> <td>3.1%</td> </tr> <tr> <td>Rensburg</td> <td>3.0%</td> </tr> <tr> <td>.</td> <td></td> </tr> </table>	Aberdeen Asset Management	5.0%	Harry Hyman (inc. Nexus Group)	6.1%	Axa Framlington	4.7%	Montanaro	4.5%	Blackrock	4.1%	Legal & General	3.1%	Rensburg	3.0%	.	
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Key Dates	Key Milestones																
<p>Annual Meeting: 27 April 2010 10.30am</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, shortly afterwards upgrading to the Official List.</p> <p>2002 Wanless Review proposing reforms in the NHS</p> <p>2007 PHP converts to REIT status Darzi Interim Report launching the reform of public primary care</p> <p>2008 (May) Largest acquisition, Port Talbot (£15.6m) (June) Darzi Review expanding on initial reform</p> <p>2009 (March) small capital raising at 220p (September) £60m equity capital raising at 230p, comprising placing and 1-for-5 rights issue.</p> <p>2010 Purchase of CareCapital property portfolio.</p>																

Primary Health Properties

25 February 2010

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