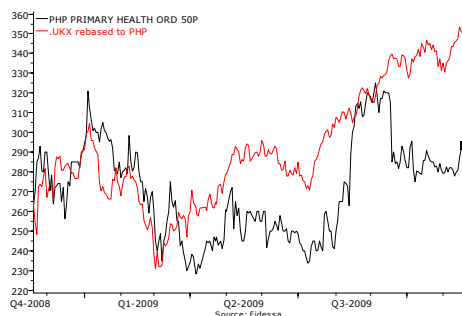


Primary Health Properties 293p

Sound Interim Management Statement

20 November 2009

Share Price: 293p



12m High: 325p

12m Low: 228p

Market Cap: £180m

Shares in Issue: 61.35m

NAV/Share: approx. 260p after September fundraise

Gearing: 47%

Interest Cover: ~4.5X

EPIC Code: PHP

Sector: Real Estate

Market: London Full List

Brokers: Numis Securities/Peel Hunt

PR: 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.

Analysts: Roger Hardman/Rae Ellingham

Tel: +44 (0)20 7929 3399

Email: research@hardmanandco.com

The Primary Health Properties Interim Management Statement states that:

- There has 'not been any material change' in the value of the properties over the quarter in the opinion of outside valuers Lambert Smith Hampton. This confirms our view that property values in the medical/GP surgery sub-sector have indeed bottomed out.
- Rental growth over the quarter was a weighted average of 3.16% p.a. This is slightly lower than the figure given in the Interim Statement but still well ahead of the inflation rate.
- Borrowings at end-October were £172.9m vs. facilities of £265m following its capital raising earlier this year. Primary Health Properties has massive headroom and a huge safety margin on its covenants. Its term facility is due for renewal/repayment in 2013.
- The theoretical liability under its interest rate swaps has risen over the quarter from £16.3m to £21.7m. We do not view this as important and strip it out of our 'adjusted' profits estimates. We would far rather PHP fixed its borrowings at the 'wrong' rate than risked an open-ended variable commitment.
- There is no further news on property purchases beyond the statement that 'the group is working on the acquisition of a number of substantial fully let investment properties'. In its September capital raising document PHP stated that £90m of potential property acquisitions were being negotiated.

There is little that is new in this Interim Management Statement, and in many ways that is good. Primary Health Properties is a defensive, safety-first company that investors hold for its high dividend and its uninterrupted record of annual dividend increases (although the shares have more than trebled since we first began research coverage of the company).

This Interim Management Statement is reassuring.

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	22.0	15.18	5.2
2008A**	19.7	4.6	15.6	18.8	15.91	5.4
2009E	20.8	6.7	16.4	17.9	17.00	5.8
2010E	26.0	11.0	18.0	16.3	17.50	6.0

* EPRA basis ** Restated # ex-rights adjusted

Primary Health Properties

20 November 2009

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 Fund Managers</td> <td>4.5%</td> </tr> <tr> <td>Rensburg Investment Management</td> <td>3.0%</td> </tr> <tr> <td>Legal & General Group PLC</td> <td>3.1%</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 Fund Managers	4.5%	Rensburg Investment Management	3.0%	Legal & General Group PLC	3.1%	.	
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Key Dates	Key Milestones														
<p>Interim Dividend Payment: 20 November 2009</p> <p>Final Results: February 2010</p> <p>Annual Meeting: April 2010</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 and (September) proposed £60m capital raising at 230p. (September) £60m equity capital raising at 230p, comprising placing and 1-for-5 rights issue.</p>														

Primary Health Properties

20 November 2009

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