

Price: **292p**

Yield: **6.0%**

Market Cap: **£179**

RIC/BLBG: **PHP.L / PHP LN**

(Current share price timed at 10.30am  
25<sup>th</sup> Feb 2010)

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*\*Numis acts as broker to Primary Health  
Properties*

## Primary Health Properties\*

### High quality income story

**Primary Health Properties (PHP) released a good set of results to December 2009. Despite a difficult year for real estate, PHP delivered robust NAV performance and attractive dividend growth supporting a fully covered 6.0% yield. In our view, this is testament to a high quality portfolio of assets with compelling occupier dynamics including long-term leases, no voids and rental income effectively guaranteed by the government. With an attractive valuation relative to other REITs which yield 4% on average and its closest closed-end peer MedicX (7% premium, 7% yield only 30% covered), we believe that PHP is the best way to play the specialist healthcare property sector.**

- **Overview:** PHP has been a listed entity since 1996, becoming the UK's first dedicated healthcare REIT in 2007. It invests in modern purpose built healthcare facilities let to GPs, Primary Care Trusts (PCTs), and pharmacies. The portfolio comprises 1.28m sq ft of space across c130 properties. Key characteristics include an average lease length of 17.3 years, 90% of rents paid for by the government and 84% of leases with triennial upward only reviews providing good visibility of cashflows.
- **Final Results:** Rental growth was a solid 3.12%, a tad lower y-on-y, although still favourable compared with other commercial real estate peers. EPRA NAV increased 3% y-on-y and 8% since the capital raise in September. Growth was driven by new additions to the portfolio as well as a moderate improvement in property values during H2. Dividend progression was an attractive 5% with aggregate DPS for the year of 17.25p, continuing a 12 year track record of growth. Having raised £60m at 230p in September 09, the balance sheet remains in good shape. LTV at the year-end was 49% compared with a 70% covenant, giving plenty of headroom to make further acquisitions. We would expect future draw downs to be at more favourable rates of interest providing an attractive arbitrage between the yield on new assets and cost of debt.
- **Positive Outlook:** Since the year-end, PHP has added £34.5m of new assets and has £10m in advanced negotiation. The medium-term target is to double the size of the portfolio from current levels. The manager remains positive about achieving greater scale in the portfolio in the near term. This should support moderate NAV and DPS growth in 2010. We conservatively assume 2010 NAV of 285p and DPS of 17.5p.
- **Attractive Relative Valuation:** PHP trades on a premium to EPRA NAV of 4% yielding a prospective, fully covered 6% compared with the REIT peer group yielding 4% on average. Its closest closed-end comparator, MedicX Fund commands a 7% premium, yielding 7% only covered 30% by cashflow making PHP a higher quality income story in our view.

This marketing communication was prepared and approved by

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