

Primary Health Properties

Steady progress

HOLD

Target price 120p | Published price 108p

Full year NAV was in line with our expectation +3.9% to 91.1p, aided by a +2.3% LFL property gain with yields -15bps to 5.38%. EPRA EPS -2% was 8% below our forecast due to cash drag, with the DPS +2.5% in line. Rent review uplifts remained soft +0.9%, in line with the prior year, but market dynamics are now improving: Increased funding, primary care reform and approvals for new primary care development alongside rising inflation expectations will provide upside. The shares trade on a CY17E P/NAV of 1.16x vs the sector 0.86x, with a DPS yield of 4.9%. Maintain HOLD.

FY16 NAV in line, EPS 8% below due to cash drag

Full year NAV was in line with our expectation +3.9% to 91.1p, vs. our 91p forecast. EPRA EPS fell -2% to 4.8p, 8% below our 5.2p forecast, principally due to cash drag following the April equity raise with a lower level of acquisition spend than we forecast. The DPS +2.5% to 5.125p was in line with our forecast, uncovered against reported EPRA EPS, but cash distributions paid in the year were covered.

+2.3% LFL valuation gain yields -15bps

A +2.3% LFL property revaluation gain was principally driven by yield compression, with the equivalent yield down -15bps to 5.38%, albeit this was weighted to H1 80%/20% (Assura 5.42% as at September 2016).

Low rental growth

Rental growth remained low, with the weighted average uplift on completed reviews +0.9% in line with the prior year. This continued to reflect a lack of comparable new build evidence, used to price open market reviews.

The portfolio remained well let at 99.7%, in line with FY15, with a weighted average unexpired lease length of 13.7yrs (14.7yrs FY15). The EPRA cost ratio similarly remained stable at 11.5%.

Acquisitions spend supporting rents

The group added 24 properties through FY16 (8 in FY15), with one Irish acquisition at a total cost of £74.2m, albeit this was below our expectation of >£100m. Purchases added £4.2m to the rent roll rent at an average unexpired lease length of 14 yrs.

Aided by the equity raise LTV fell from 62.7% to 53.7%, with interest cover at 2.05x (covenant 1.3x), providing capacity for further acquisition growth in FY17.

PHP cites a strong pipeline of future purchases with £72m in the UK and €53m in Ireland.

Furthermore, the group has been selected for 8 development projects as part of the Estates and Technology Transformation Fund.

Taking share in a low-risk, growth market

We expect PHP's portfolio to benefit from long-term structural growth, driven by a growing and ageing UK population coupled with efforts to improve the efficiency and cost effectiveness of the NHS by expanding the scope of services provided by GPs. The majority of the existing primary care estate is considered unfit for purpose to meet this growing demand. Development activity has been hampered by NHS reforms which has depressed rental growth in recent years, although there are signs that activity is returning and 20% of rents are directly linked to RPI. The shares trade on a CY17E P/NAV of 1.16x vs sector 0.86x, but offer a DPS yield of 4.9%. We maintain a HOLD rating.

Figure 1: Summary Financials & Valuation (not updated for FY16 results)

Valuation Summary (CY)	2015A	2016E	2017E	2018E
P/NAV (x)	1.23	1.19	1.16	1.13
P/E (x)	22.1	20.7	17.7	16.7
Div Yield (%)	4.6%	4.7%	4.9%	5.0%
EV/EBITDA (x)	24.3	22.1	21.2	20.7
FCF Yield (%)	3.2%	2.1%	5.5%	5.9%
Financials (FY - Dec y/e)	2015A	2016E	2017E	2018E
Gross rental income (£m)	63.1	71.3	77.8	82.5
Net rental income (£m)	62.3	70.4	76.8	81.4
Gross to net (%)	98.7%	98.8%	98.8%	98.8%
Adj. EBITDA (£m)	55.5	62.9	68.9	73.2
EBITDA margin (%)	87.9%	88.3%	88.5%	88.7%
Adj. EBIT (£m)	55.5	62.9	68.9	73.2
EBIT margin (%)	87.9%	88.3%	88.5%	88.7%
Adj. net Interest (£m)	-33.7	-34.1	-32.4	-34.4
Adj. PBT (£m)	21.7	28.8	36.4	38.7
Adj. EPRA EPS - diluted (p)	4.9	5.2	6.1	6.5
DPS (p)	5.0	5.1	5.3	5.4
Cover (x)	1.0	1.0	1.2	1.2
Diluted EPRA NAV (p)	87.7	90.7	93.0	95.8
Net cash/(debt) (£m)	-700.7	-744.3	-814.4	-868.1
LTV (%)	63%	57%	58%	59%

Source: Liberum

Research



Kieran Lee
+44 (0)20 3100 2276
Kieran.Lee@liberum.com



David Brockton
+44 (0)20 3100 2243
David.Brockton@liberum.com

Specialist Sales



John Mozley
+44 (0)20 3100 2115
John.Mozley@liberum.com

If you were forwarded this by a colleague and would like to receive the sector research directly, please click [here >>](#)

If you would like to notify us of a change to your current subscription to Liberum research please click [here >>](#)

This is a marketing communication and is not independent research prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to a prohibition on dealing ahead of the dissemination of investment research.

This communication is issued by Liberum Capital Limited (LCL). Liberum Capital Limited is authorised and regulated by the Financial Conduct Authority (FCA). This email and any attachments to it are confidential and are intended for the named addressee only. If you are not the intended recipient of this email please delete it immediately and do not take any action based upon it. This communication is intended for use only by a person or entity that qualifies as a "Professional Client" or an "Eligible Counterparty" within the meaning of the rules of the FCA. Consequently, this

communication is intended for use only by persons having professional experience in matters relating to investments. This communication is not intended for use by any other person. Any other person who receives this communication should not act on the contents of this communication.

Internet communications are not secure or error free and although emails are routinely screened for viruses, LCL does not accept responsibility for any computer virus which might be transferred by way of this email. Replies to this email may be monitored.

This communication is for information purposes only and should not be regarded as an offer or solicitation to buy or sell any security. Expressions of opinions are those of the author and the research department of LCL only and are subject to change without notice. The information, data, opinions, estimates and projections contained herein have been obtained from sources which we believe to be reliable. Furthermore, all charts and graphs are from publicly available sources or proprietary data. No representation or warranty either expressed or implied, is made nor responsibility of any kind is accepted by LCL, its officers or employees either as to the accuracy or completeness of any information stated in this document and LCL shall not be liable for any direct or indirect damages, including lost profits, arising in any way from the information contained in this communication. While LCL endeavours to update its research reports from time to time it is under no obligation to do so.

LCL and/or its officers and employees may have or take positions in securities of companies mentioned in this communication (or in any related investment) and may from time to time dispose of any such positions. LCL may act as a market maker in the securities of companies discussed in this communication (or in any related investments), may sell them or buy them from customers on a principal basis, and may also perform underwriting services for or relating to those companies.

LCL may provide or may have provided corporate services to the issuers of securities mentioned in this communication and recipients of this document should not therefore rely on this report as being an impartial document. Accordingly, information may be known to LCL or persons connected with it which is not reflected in this material.

For more information on models, please contact the Analyst.

LCL has a conflicts management policy relating to its investment research activities, which is available upon request. Please contact the LCL Compliance Officer for further details.

For US Investors: Analyst Certification: The analyst(s) who prepared this report hereby certifies that all of the views expressed in this report accurately reflect his / her personal views about the subject securities or issuers. No part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

Please refer to www.liberum.com/legal for detailed disclosures

The stated price of any securities mentioned herein is as at the end of the business day immediately prior to the publication date on this document unless otherwise stated and is not a representation that any transaction can be effected at this price. No personal recommendation is being made to you; the securities referred to may not be suitable for you and this material should not be relied upon in substitution for the exercise of independent judgement.

^Completed when first distributed.

Registered in England & Wales No. 5912554 with registered office address Ropemaker Place, Level 12, 25 Ropemaker Street, London EC2Y 9LY, Tel +44 (0)20 3100 2000 Fax +44 (0)20 3100 2299.