PEEL HUNT

MARKETING COMMUNICATION

Buy

18 March 2019

Primary Health Properties#

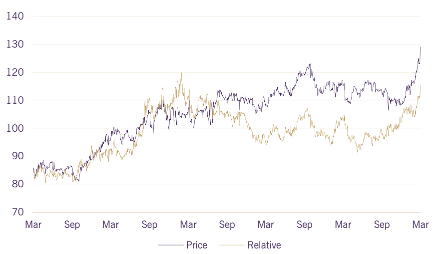
PHP

DATA

Price (close 14/3)	129p
Target price	140p
Market cap	£1,459m
NAV	105p
Free float	100%
Index	FTSE 250
Sector	Real Estate
Next news	Jul - Interims
UK portfolio	94%
European portfolio	6%
North American portfolio	0%
Rest of World portfolio	0%

PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

Scale and income durability a very attractive combination
The recently-completed all-share merger between Primary Health Properties and MedicX has created a £2.3bn portfolio of quality primary care assets. Both sets of shareholders benefit from immediate accretion, with more to come through a combination of cost synergies and refinancing opportunities, plus an attractive and enlarged acquisition pipeline. The c£1.5bn REIT can now add enhanced liquidity to its attractive income proposition, building upon its exemplary track record of growth and return generation. A yield of 4.3% underpinned by this durable and low-risk asset class puts PHP in pole position.

A win-win price. The all-share exchange ratio of 0.77 provides both sets of shareholders with immediate and longer-term benefits. For PHP shareholders it reflects a very small relative NAV discount as well as a discount to MedicX's five-year average absolute NAV rating. MedicX shareholders enjoyed an immediate uplift, with the offer pitched at a c14% premium to the previous day's close.

Immediately earnings-accretive. Even with no allowance for acquisitions and only taking into account indicated cost savings, our analysis suggests earnings uplifts of +4% and +9% for PHP and MedicX shareholders respectively.

Material further upside to come. Significant refinancing opportunities exist in the short-to-medium term. Prior to the merger both MedicX and PHP's average cost of debt substantially exceeded current market rates, and larger companies typically achieve lower margins. We estimate possible savings of £2.5m per annum from two facilities maturing this summer alone.

A £2.3bn portfolio with an enhanced acquisition pipeline. PHP now boasts the largest primary healthcare portfolio in the UK & Ireland. Also, the acquisition pipelines are highly complementary, with little or no overlap, and PHP now has visibility on around £150m of assets in the UK and a further £185m in Ireland, which we estimate could increase earnings by over 11%.

A top 15 REIT with a very strong income proposition. PHP provides one of the most durable and highest-quality income streams in the sector, with 91% of the income Government-backed and a WAULT of 13.5 years. The company has increased the dividend for the last 22 years and has delivered a CAGR of 13% since IPO. Yielding a prospective 4.3%, PHP now offers the rare combination of liquidity and an attractive yield backed by strong and safe rental streams.

STATS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	Net Op Inc (£m)	Adj EPS (p)	EPS growth (%)	PER (x)	DPS (p)	Div yield (%)	Adj NAV (p)	NAV/3net (p)	Disc/NAV (%)	Disc/3net (%)
2018A	76.4	5.4	2.5	24.0	5.4	4.2	105.1	102.5	22.9	26.1
2019E	115.0	5.7	5.9	22.7	5.6	4.3	106.6	104.4	21.3	23.8
2020E	132.7	6.2	8.0	21.0	5.7	4.4	110.5	108.4	16.9	19.2
2021E	141.9	6.6	7.2	19.6	5.9	4.5	115.3	113.1	12.1	14.2

The right price

The price reflected a discount to MedicX's five-year average rating

The all-share exchange ratio of 0.77 provides both sets of shareholders with immediate and longer-term accretion. MedicX shareholders enjoyed an immediate uplift as detailed below, while for PHP holders the price reflects a small relative NAV discount and a discount to MedicX's five-year average absolute NAV rating.

An attractive price for MedicX shareholders…

PHP acquired MedicX at an exchange rate of 0.77 new PHP shares for each MedicX share. On the closing price the night before the announcement (24th January) was made, this valued MedicX at 88.7p. This represented:

- a premium of 14.3% to the closing price of MedicX on the previous day; and
- a premium of 15% to the volume-weighted average price over the previous three months.

Whilst this offered a material initial uplift to shareholders in MedicX, the bid price was still below previous MedicX share price highs. However, the company had announced a cut to the dividend and the company's ability to continue its growth strategy (which is key for EPS growth) was arguably curtailed by the relatively high LTV (53%) and its discount to NAV.

Chart 1: MedicX share price

Source: Datastream

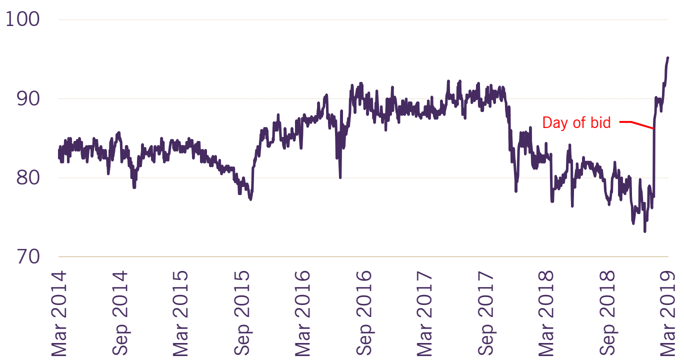
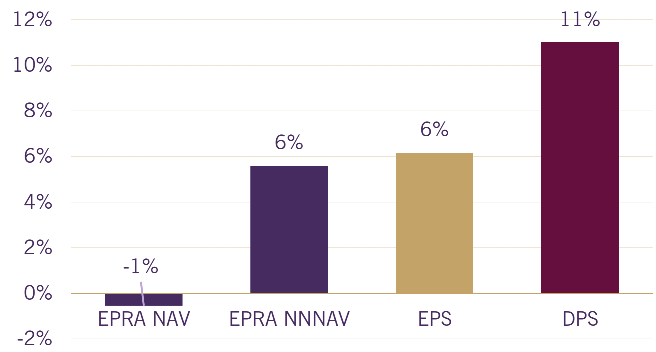


Chart 2: Change in key metrics for MedicX shareholders

Source: Company accounts, Peel Hunt estimates



Furthermore, at the exchange ratio of 0.77, PHP has an EPS which is 6% higher than MedicX and shareholders will also benefit from PHP's dividend which, for 2019E, is c11% higher than the 3.9p guidance MedicX had issued.

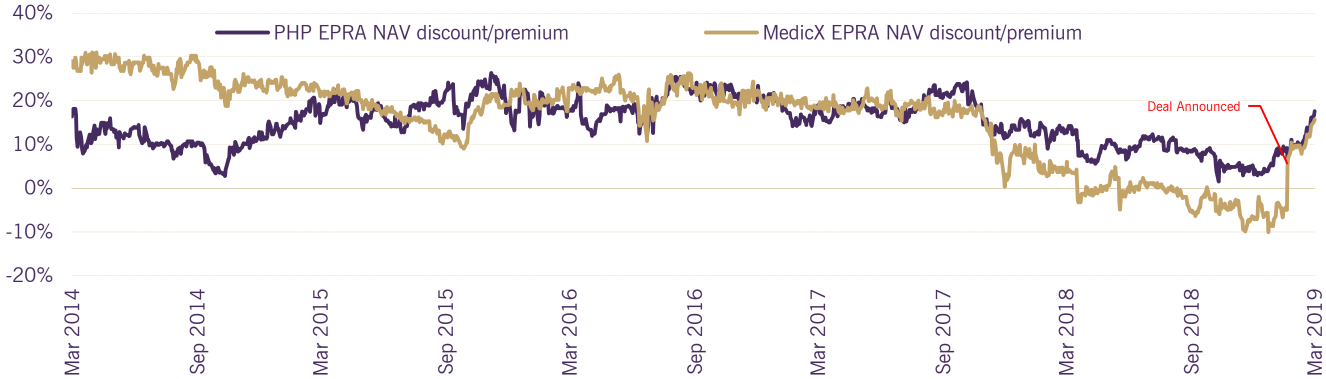
… as well as for PHP shareholders

Taking advantage of the relative rating on the two stocks

Following years of trading at a premium to NAV, towards the end of 2017 MedicX's share price became depressed due to its relatively high LTV and its inability to grow, further exasperated by the dividend cut announced in May 2018. However, throughout this period, PHP continued to trade on a material premium to NAV, both in absolute terms and, importantly, relative to MedicX (Chart 3 below).

Chart 3: PHP and MXF NAV discount/premium

Source: Datastream, Company accounts, Peel Hunt estimates



Led by founder Harry Hyman and his experienced team at Nexus, this enabled PHP to offer a premium price that would appeal to MedicX shareholders, but from a NAV perspective the deal is effectively at a very small discount to PHP's own NAV. Whilst PHP is offering MedicX shareholders stock at a premium of 10%, PHP is buying MedicX at a premium of 9% (both as of the 23rd January closing price).

In fact, when the deal between the two companies was first announced, the relative NAV rating between the two companies was the highest it has been for many years, as Chart 5 shows.

Furthermore, comparing the historic ratio between the two share prices (Chart 4), the 0.77x ratio is below the 5-year average ratio between the two companies and (other than the past 18 months when MedicX ran into structural issues) the ratio between the two prices has rarely dipped below 0.77x.

Chart 4: Ratio between PHP and MXF share prices

Source: Datastream, Peel Hunt estimates

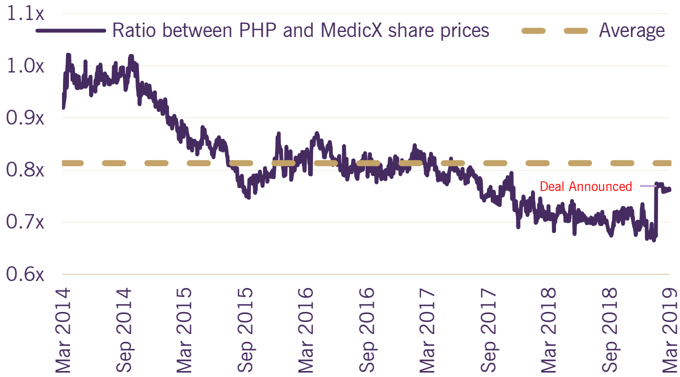
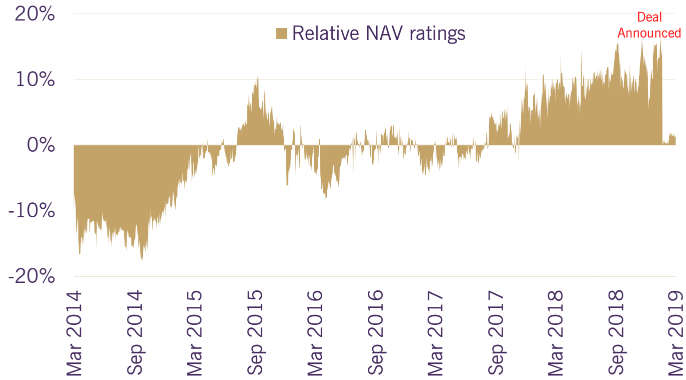


Chart 5: Relative NAV ratings between PHP and MXF

Source: Company accounts, Peel Hunt estimates



Earnings accretion: now and in the future

For us, one of the key benefits of the merger between PHP and MedicX is the benefits to earnings the combination will provide for both sets of shareholders. We set out below our view on the sources and quantum of this earnings accretion.

Immediate accretion for all

In the original merger announcement, PHP confirmed that the deal would potentially deliver "significant accretion" to MedicX shareholders. Our analysis suggests it will also be accretive to PHP shareholders, even when only allowing for the cost savings indicated by management (75% of which are contractual through the management fee).

An annualised P&L shows earnings accretion for both sets of shareholders

Below we highlight what we believe to be the approximate annualised P&L for each company as of the most recent full year (Sep '18 for MedicX and Dec '18 for PHP). We have made no allowance for any further acquisitions or developments completing. Nor have we given any benefit to the long-term refinancing opportunities or any other opportunities arising from running a far greater portfolio – this simply demonstrates the initial earnings accretion to both sets of shareholders.

Table 1: Immediate Earnings Accretion

Source: Company accounts, Peel Hunt estimates

	PHP Dec 18 run-rate	MedicX Sep 18 run rate	Combined	Cost synergies	Pro-forma
Gross rent	81.7	43.5	125.2		125.2
Direct	(3.3)	(1.5)	(4.8)		(4.8)
Net rent	**78.4**	**42.0**	**120.3**		**120.3**
Mgmt fees	(6.8)	(3.5)	(10.4)	3.0	(7.4)
Other PLC costs	(2.0)	(2.2)	(4.3)	1.0	(3.3)
EBITDA	**69.5**	**36.2**	**105.7**		**109.6**
Net finance	(28.4)	(18.6)	(47.0)		(47.0)
Recurring Earnings	**41.1**	**17.6**	**58.7**	**4.0**	**62.6**
Weighted Av Shares	769	443	1,110		1,110
Adj EPS	5.4p	4.0p	5.3p		5.6p
			Accretion to PHP shareholders		+4%
			Accretion to MedicX shareholders		+9%

With further upside to come

We anticipate further earnings accretion to be delivered over the coming years through a combination of initiatives.

Refinancing opportunity

Under the constraints of The Takeover Panel, management has been unable to comment fully on the potential long-term refinancing opportunity within the enlarged business. We believe this is twofold:

- MedicX's average cost of debt (4.26%) is higher than PHP's (3.9%) and, importantly, both of these remain higher than current market rates (we estimate these are c3.3% in the UK and c2.5% in Ireland).
- Larger companies typically attract lower margins than smaller companies; this is especially true in the capital markets. Furthermore, larger balance sheets also

increase optionality, as demonstrated by Assura moving to an unsecured balance sheet as it grew.

Whilst the debt structure of the combined vehicle is relatively long-term with an average maturity of seven years (Chart 6 below), there are also significant shorter-term opportunities.

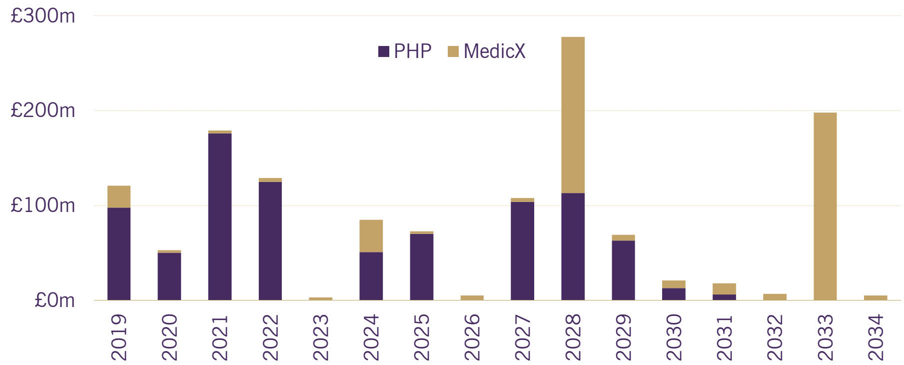
Short-term refinancing involves PHP's convertible bond and its retail bond

For 2019, PHP has a convertible bond (now just c£2m remaining at 4.25%) and a retail bond (£75m at 5.375%), both of which mature this summer. We estimate that refinancing these facilities alone will save around £2.5m of interest expense per annum, which will add around 0.2p to EPS (this is included within our new forecasts set out on page 11).

Furthermore, in the four years up to 2022 over one-third of the combined vehicle's debt book matures, and combined with new facilities being used to finance incremental acquisitions, we expect to see a gradual reduction in the cost of debt. That said, our forecasts do not include this benefit and, as and when this occurs, this should offer material upgrade potential.

Chart 6: PHP debt maturity

Source: Company accounts, Peel Hunt estimates



We show in Table 2 and Chart 7 below the impact of each 25bps reductions in the average cost of debt – we estimate that every 25bps reduction in interest expense could add around 5% to EPS.

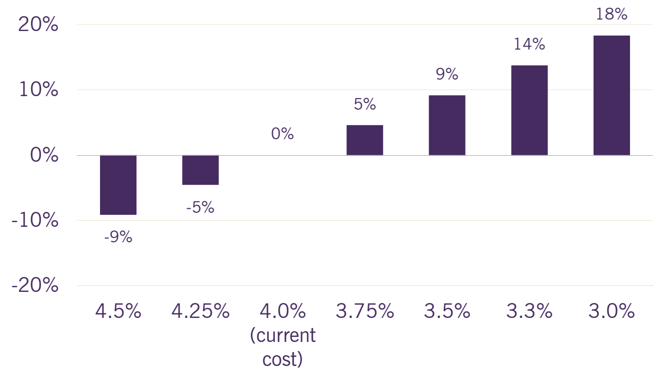
Table 2: EPS sensitivity to cost of debt

Source: Company accounts, Peel Hunt estimates

Cost of debt	Interest saving	EPS impact	%
4.50%	-£5.5m	-0.5p	-9%
4.25%	-£2.7m	-0.2p	-5%
4.00% (current cost)	£0.0m	0.0p	0%
3.75%	£2.7m	+0.2p	+5%
3.50%	£5.5m	+0.5p	+9%
3.25%	£8.2m	+0.7p	+14%
3.00%	£11.0m	+1.0p	+18%

Chart 7: Impact on EPS of refinancing at lower rates

Source: Company accounts, Peel Hunt estimates



Could PHP repay some of the fixed rate debt early?
Unlike peer Assura, PHP has not typically broken long-term debt in order to reduce its interest expense (this also reduces EPRA NAV and is typically a zero-sum game). However, the company has on occasion broken specific swaps and/or it has used the NAV accretion delivered via premium equity issuance to offset the cost of breaking and repaying swaps or fixed rate debt.

As of Dec '18 the cost of breaking MedicX's debt would be c£40m and the cost to refinance PHP's at market rates would be £27m. Combined, this would hit NAV by approximately 7% and we understand management has no plans to do this. However, we do see potential for PHP to restructure and/or repay particular facilities at opportunistic times and this would accelerate the long-term refinancing opportunity outlined above.

Rental growth is picking up

The opportunity from rental inflation

Whilst open-market rental growth has been relatively muted for a number of years now, there is increasing evidence that we have reached a turning point, with all three companies (up to the merger) reporting increased levels of developments, higher open-market rental reviews (although still low by historic standards) and an improving outlook for rental growth. In particular:

- MedicX refers to a recent rent review at Clapham that led to a 35% increase in rent (equating to 10.5% per annum over the three-year review period). We understand this should also provide positive read-across for other London schemes (we don't assume 35% everywhere).
- Recent comments from PHP in its final results refer to inflation on both land and construction costs, and how this feeds into rents on new schemes. As new developments are delivered, this provides evidence for rental tones that "should have a positive impact on future rental growth for the rest of the portfolio."

Chart 8: Gradual increase in rental growth
Source: Company accounts, Peel Hunt estimates

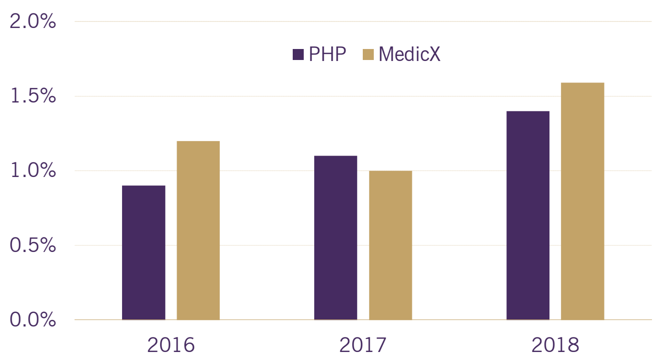


Table 3: Sensitivity of EPS to rental growth
Source: Company accounts, Peel Hunt estimates

Rental Growth	5-year cumulative EPS growth	5-year CAGR EPS growth
0.00%	0%	0.0%
0.75%	+7%	+1.3%
1.50%	+14%	+2.6%
2.25%	+21%	+3.9%
3.00%	+29%	+5.2%
3.75%	+36%	+6.4%

Above we show the total rental growth reported by MedicX and PHP – both of which show a noticeable – albeit gradual – uplift from 2016 (we haven't shown Assura as we understand it reports only reviews that were completed and excludes those which the company decided not to initiate when no rental growth was likely).

We assume rental growth edges up to 2% per annum over the next three years

We assume rental growth continues to pick up, edging up to 2% over the next three years. However, were rental growth to accelerate further, the impact on earnings could be fairly material. In Table 3 above we simply show the impact on 5-year EPS of various rental growth assumptions.

Acquisition pipeline to deliver further growth

Much of PHP's (and Assura's) recent growth has come from additional acquisitions – investment yields of c5% (or c6% in Ireland) compare favourably to financing costs of c3.0-3.5%, and with little additional overhead, much of the surplus drops straight into the company's earnings.

Chart 9: UK acquisitions

Source: Company accounts, Peel Hunt estimates

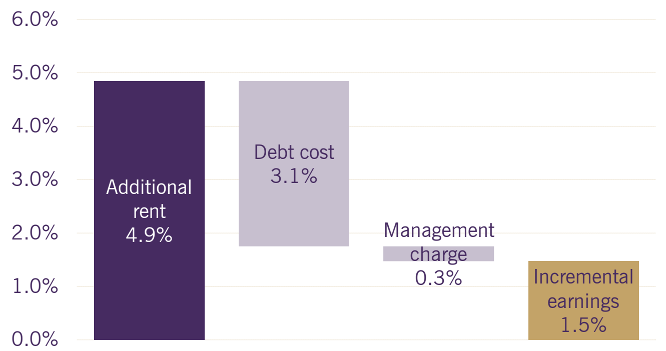
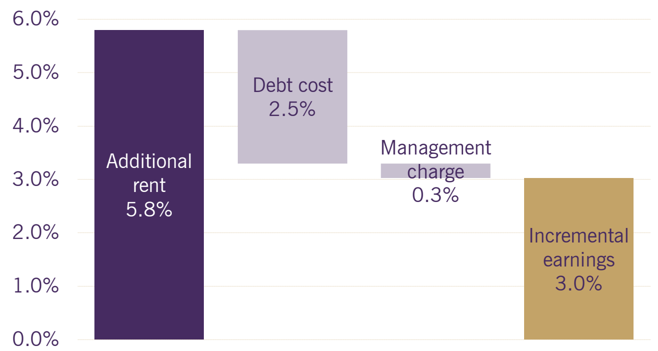


Chart 10: Ireland acquisitions

Source: Company accounts, Peel Hunt estimates



For PHP, the opportunity in Ireland looks particularly exciting. As shown in Charts 9 and 10 above, the impact on earnings for each purchase in Ireland is approximately double that in the UK. Furthermore, both companies have strong acquisition pipelines with a significant focus on Ireland:

- At the recent FY results, PHP highlighted a pipeline of over £190m, of which £90m was in the UK and £100m was in Ireland.
- At MedicX's FY results in December, the company highlighted a pipeline of £144m, of which £60m was in the UK and £84m was in Ireland.

A complementary £330m+ pipeline

We understand the acquisition pipelines are complementary, with little or no overlap, suggesting that, combined, the company has its sights on around £150m of assets in the UK and a further £185m in Ireland.

In Table 4 below we show the impact on EPS for differing levels of acquisitions – each £150m spent in the UK will add 4% to EPS, whilst in Ireland each £150m spent will add around 8% to EPS (we assume between £100-125m of purchases each year from here).

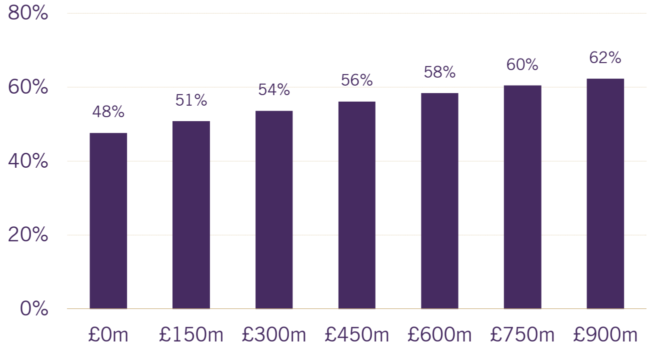
Table 4: EPS sensitivities for acquisitions in UK and Ireland

Source: Company accounts, Peel Hunt estimates

		Irish Acquisitions				
		£0m	£150m	£300m	£450m	£600m
UK Acquisitions	£0m	0%	8%	15%	23%	30%
	£150m	4%	11%	19%	26%	34%
	£300m	7%	15%	23%	30%	38%
	£450m	11%	19%	26%	34%	41%
	£600m	15%	22%	30%	37%	45%

Chart 11: Impact on LTV of varying levels of acquisitions

Source: Company accounts, Peel Hunt estimates



The LTV of the combined vehicle is 47% pro forma (excluding the convertible bond) and whilst acquisitions will clearly be beneficial to shareholders from an EPS perspective, they would also clearly increase LTV, and in Chart 11 above we show the impact for various amounts of purchases (this is before any further revaluation gains, which we do expect to continue, albeit at more moderate levels than seen over the past few years).

A leading £2.3bn primary care portfolio

Following the merger, Primary Health Properties boasts the largest primary healthcare portfolio in the UK & Ireland, with a portfolio value of £2.3bn. This is now c30% larger than Assura's. Details on the combined portfolio are shown below.

Table 5: Key portfolio statistics

Source: Company reports

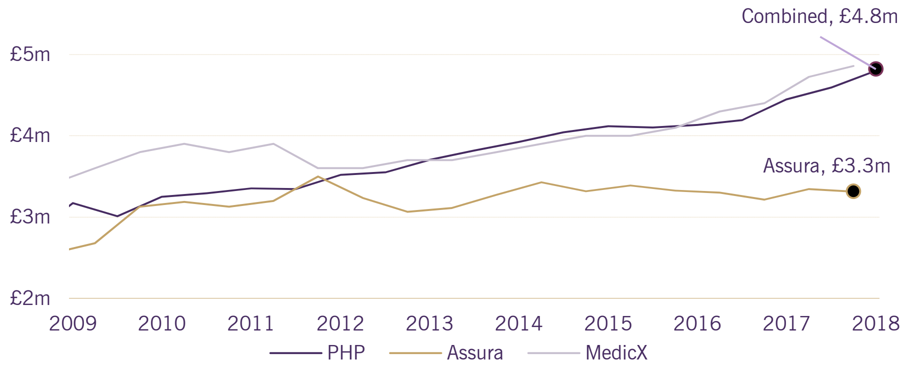
As at:	PHP Dec-18	MedicX Sep-18	Combined portfolio	Assura Sep-18
Total number of properties	313	166	479	556
Properties in Ireland	8	5	13	n/a
Investment portfolio value (£bn)	1.5	0.8	2.3	1.8
Contracted rent roll (£m)	79	44	123	97
Net initial yield	4.85%	4.85%	4.85%	4.79%
Average lot size (£m)	4.8	4.8	4.8	3.3
Average WAULT (years)	13.1	14.2	13.5	12.2
Occupancy	99.8%	99.0%	99.5%	98%
Government backed rent	91%	90%	91%	84%
Rent subject to fixed or indexed uplifts	31%	30%	31%	27%

As well as owning the largest portfolio of primary care assets in the quoted sector, we also believe PHP has a higher quality portfolio, reflected in the higher average lot size (£4.8m) as well as its c21% weighting by value to London and the South East.

We believe lot size is important, and in the chart below we plot the evolution in lot size across the three portfolios. The average was broadly similar until 2012, when Assura employed a more aggressive acquisition strategy, which saw it acquire a greater volume of smaller assets.

Chart 12: Average lot size

Source: Company accounts, Peel Hunt estimates

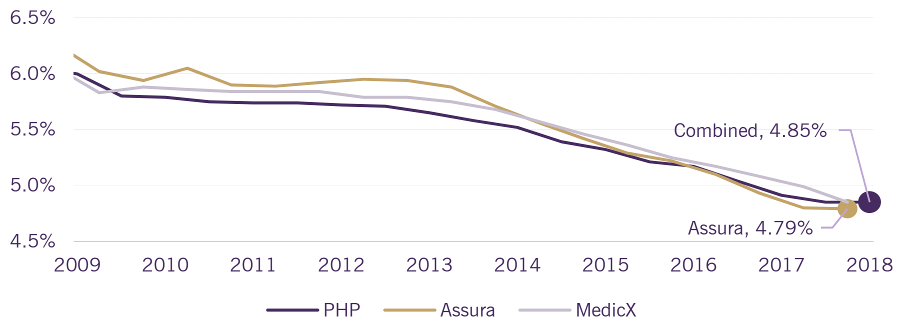


Valuation yields are very similar

Furthermore, despite the variation in asset size, there is very little difference in the valuation yields across the three portfolios, as shown in Chart 13. PHP's portfolio has a marginally higher net initial yield of 4.85% compared with Assura at 4.79%. We believe this is largely due to the higher-yielding Irish assets and not a reflection of the lot size differential.

Chart 13: Portfolio valuation yields

Source: Company accounts, Peel Hunt estimates



Merger expedites PHP's portfolio growth ambitions

SDLT saving is c£40m

An important point to note for PHP shareholders is the growth opportunity the MedicX portfolio has yielded. We estimate, at recent run rates of acquisitions, acquiring c£800m of primary care assets would have taken PHP approximately five years. Yet this has been done in one go, at less cost at the property level (the estimated stamp duty saved is c£40m), and without sacrificing asset quality based upon lot size and yield profile.

New Peel Hunt forecasts

Today we publish our new forecasts, which are based upon the following key assumptions:

- Between £100m and £125m of acquisitions per annum. Previously we had been assuming £100m per annum and, given the increased scale of the merged company's pipeline (see page 7), this may well prove conservative.
- Capital growth of c2% per annum, largely driven by increased levels of rental growth, with yields only coming in marginally (a couple of basis points).
- We assume c£3m of cost savings from the merger in FY19, and then assume the full £4m is saved in FY20.
- We assume the retail bond that matures in FY19 is refinanced at a rate around 250bps lower on average.

Table 6: New Peel Hunt forecasts

Source: Company accounts, Peel Hunt estimates

	FY19E		FY20E		FY21E	
	NEW	old	NEW	old	NEW	old
Adj Earnings (£m)	60.2	44.6	69.8	48.6	74.8	n/a
Adj EPS (p)	**5.7**	**5.8**	**6.15**	**6.16**	**6.6**	**n/a**
DPS (p)	**5.55**	**5.55**	**5.70**	**5.70**	**5.9**	**n/a**
Yield	4.5%		4.6%		4.7%	
Cover	1.0x		1.1x		1.1x	
EPRA NAV (£m)	1,209	867	1,254	907	1,308	n/a
EPRA NAV per share (p)	**107**	**109**	**111**	**113**	**115**	**n/a**
NAV rating	16%		12%		8%	
NAV growth	1.4%		3.7%		4.3%	
Total return	6.6%		9.1%		9.6%	

Our NAV forecasts are reduced marginally, allowing for slightly lower levels of capital growth as well as full allowance for the £25m of one-off merger costs.

On EPS, our FY19 EPS is reduced by c1% as this gives part benefit to the REIT of the expected cost savings. FY20 EPS is unchanged at 6.2p; this comfortably covers the dividend 1.1x and we believe this is conservative given the acquisition assumptions we have made, combined with no further refinancing benefit.

Table 7: Summary income statement

Source: Company accounts, Peel Hunt estimates

Income Statement	FY18E	FY19E	FY20E	FY21E
Gross rent	79.6	119.4	137.8	147.3
Direct	(3.2)	(4.4)	(5.1)	(5.5)
Leakage	-4.0%	-3.7%	-3.7%	-3.7%
Net rent	**76.4**	**115.0**	**132.7**	**141.9**
Mgmt fees	(6.6)	(6.2)	(9.4)	(9.8)
Other costs	(2.0)	(4.2)	(3.2)	(3.2)
EBITDA	**67.8**	**104.6**	**120.1**	**128.9**
Net finance	(29.7)	(44.4)	(50.3)	(54.1)
Recurring Earnings	**38.1**	**60.2**	**69.8**	**74.8**
Weighed Av Shares	709	1,057	1,134	1,134
EPRA EPS (excl. PIF)	**5.4p**	**5.7p**	**6.2p**	**6.6p**

Table 8: Summary balance sheet

Source: Company accounts, Peel Hunt estimates

Balance Sheet	FY18A	FY19E	FY20E	FY21E
Property	1,503	2,447	2,614	2,786
Gross debt	(676)	(1,217)	(1,342)	(1,467)
Cash	6	16	20	26
Other	(45)	(63)	(63)	(63)
Total NAV	**788**	**1,184**	**1,229**	**1,283**
EPRA Adjustments	21	25	25	25
EPRA NAV	809	1,209	1,254	1,308
Closing shares	769	1,134	1,134	1,134
EPRA NAV per share	**105p**	**107p**	**111p**	**115p**
LTV	**45%**	**49%**	**51%**	**52%**

Valuation

With a market capitalisation of c£1.5bn, supported by a £2.3bn portfolio spanning c480 assets, the 'new' Primary Health Properties now offers investors an unrivalled combination of income-led returns underpinned by one of the safest niches in the UK real estate sector.

The premium rating reflects the quality and security of the underlying income stream

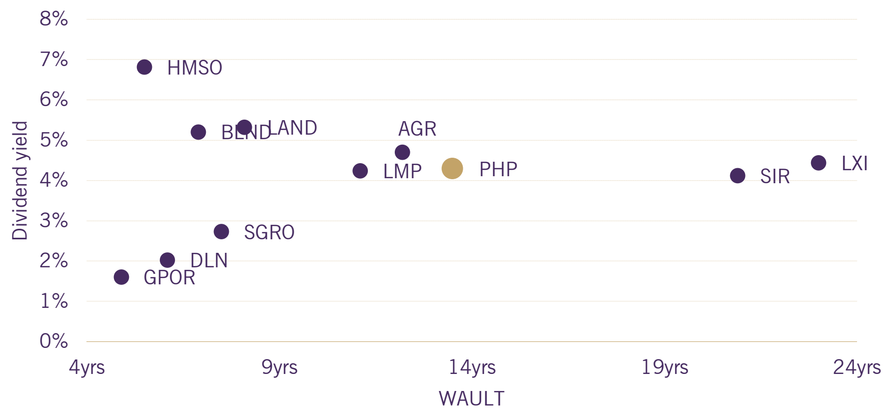
Yes, the shares sit at a premium to the prevailing NAV – a situation not unique in the sector at present – but, as we have seen over the past few weeks with the likes of Intu Properties, Hammerson, RDI REIT# and The PRS REIT all reducing dividend expectations in one form or another, good income streams backed by long lease contracts to strong counterparties deserve to be worth more than the sum of their parts.

An attractive yield and an unrivalled counterparty

On a prospective yield of 4.3%, PHP not only screens well among our £1bn+ REIT coverage universe, but our forecasts also show that it has one of the best growth profiles, with growth of c4.4% per annum reflected in our new forecasts set out on page 11.

Chart 14: Dividend yield and income durability (WAULT in years)

Source: Company reports, Peel Hunt estimates



In order to underline the quality of the income streams underpinning this dividend, Chart 14 above shows the prospective dividend yield plotted against the weighted-average unexpired lease term. As you can see, PHP screens well, with its 4.3% yield and a WAULT on the combined portfolio of 13.5 years. This becomes even more attractive, in our view, when you consider:

- 91% of the income is Government-backed; and
- over 30% of the income is subject to either fixed or indexed uplifts.

Reassuringly expensive

An attractive combination of yield and growth

For income seekers in an increasingly uncertain world, a 4.3% yield growing at over 4% per annum does not look overly demanding for us. Combined with our accounting return expectations (NAV growth plus dividends), which also average over 8% per annum over our three-year forecast period (page 15), the premium rating looks justified. In our view, a PE of 21x (2020E) looks reassuringly

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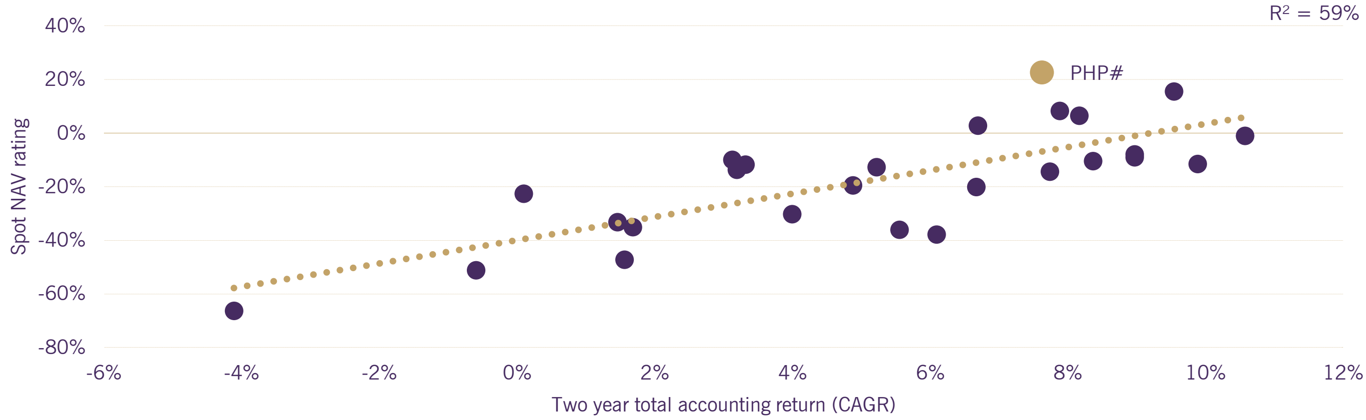
expensive for a business with the track record, quality and growth potential of Primary Health Properties.

Chart 15: Spot NAV rating and two-year CAGR total accounting return

Source: Company reports, Datastream, Peel Hunt estimates



Key financials and valuation metrics

Table 9: Income statement

Source: Company accounts, Peel Hunt estimates

Y/E December	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E
Gross Rent	60.0	63.1	67.4	72.5	79.6	119.4	137.8	147.3
Direct Costs	-0.7	-0.9	-0.9	-1.2	-3.2	-4.4	-5.1	-5.5
Development/trading gains (recurring)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Rent	**59.3**	**62.3**	**66.6**	**71.3**	**76.4**	**115.0**	**132.7**	**141.9**
Admin Expenses	-6.8	-6.8	-7.3	-8.2	-8.6	-10.4	-12.6	-13.0
Fee Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**52.5**	**55.5**	**59.2**	**63.1**	**67.8**	**104.6**	**120.1**	**128.9**
PH Cost Ratio	-13%	-12%	-12%	-13%	-15%	-12%	-13%	-13%
Net Finance Costs	-34.3	-33.7	-32.5	-31.6	-29.7	-44.4	-50.3	-54.1
Contribution from JVs/Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurring PBT	**18.2**	**21.7**	**26.7**	**31.5**	**38.1**	**60.2**	**69.8**	**74.8**
Current Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Earnings	**18.2**	**21.7**	**26.7**	**31.5**	**38.1**	**60.2**	**69.8**	**74.8**
Weighted average shares	444m	446m	560m	601m	709m	1,057m	1,134m	1,134m
Adjusted Earnings per share	**4.1p**	**4.9p**	**4.8p**	**5.2p**	**5.4p**	**5.7p**	**6.2p**	**6.6p**
P/E Ratio	32x	26x	27x	25x	24x	23x	21x	20x
Ordinary Dividend Per Share	4.9p	5.0p	5.1p	5.3p	5.4p	5.6p	5.7p	5.9p
Special dividend per share	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p
Dividend yield (incl. special)	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%
Dividend Cover (excl. special)	0.8x	1.0x	0.9x	1.0x	1.0x	1.0x	1.1x	1.1x

Table 10: Balance sheet

Source: Company accounts, Peel Hunt estimates

Y/E December	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E
Investment Property	1026	1101	1220	1362	1503	2447	2614	2786
Trading/development assets	0	0	0	0	0	0	0	0
Investment in JVs / Associates	0	0	0	0	0	0	0	0
Assets held for sale	0	0	0	0	0	0	0	0
Cash	12	3	5	4	6	16	20	26
Other assets	6	4	3	7	5	15	15	15
TOTAL ASSETS	**1044**	**1108**	**1229**	**1372**	**1514**	**2479**	**2649**	**2828**
Bank debt and bonds	-667	-698	-668	-730	-676	-1217	-1342	-1467
Other	-68	-65	-61	-55	-50	-78	-78	-78
TOTAL LIABILTIES	**-735**	**-762**	**-729**	**-786**	**-726**	**-1295**	**-1420**	**-1545**
LTV	64%	63%	54%	53%	45%	49%	51%	52%
Basic NAV	£309m	£345m	£499m	£587m	£788m	£1,184m	£1,229m	£1,283m
Adj NAV	**£422m**	**£466m**	**£622m**	**£687m**	**£834m**	**£1,209m**	**£1,254m**	**£1,308m**
Closing number of shares	530m	531m	683m	683m	793m	1,134m	1,134m	1,134m
Adj NAV per share	**80p**	**88p**	**91p**	**101p**	**105p**	**107p**	**111p**	**115p**
Premium/discount	62%	47%	42%	28%	23%	21%	17%	12%

Key financials and valuation metrics

Chart 16: Earnings per share

Source: Company accounts, Peel Hunt estimates

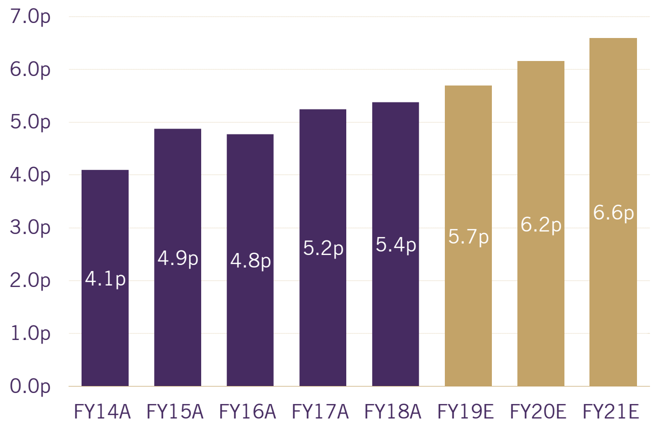


Chart 17: Dividends per share

Source: Company accounts, Peel Hunt estimates

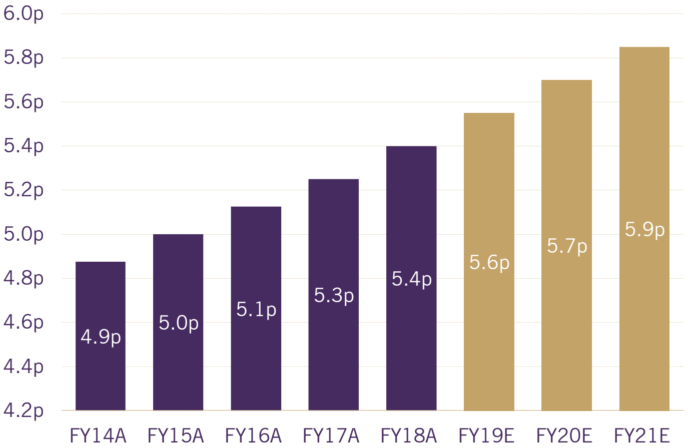


Chart 18: Adjusted NAV per share

Source: Company accounts, Peel Hunt estimates

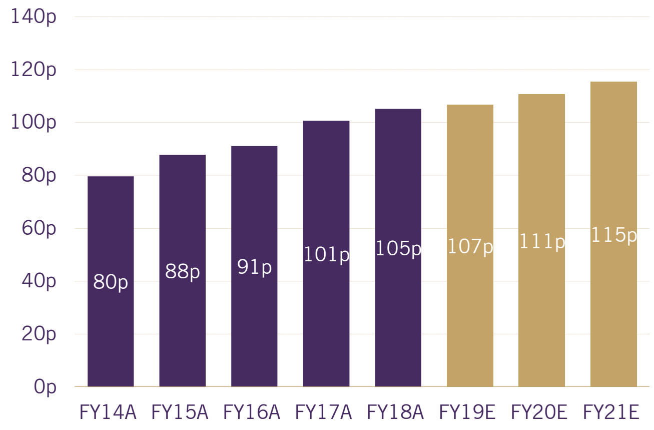


Chart 19: Loan to value

Source: Company accounts, Peel Hunt estimates

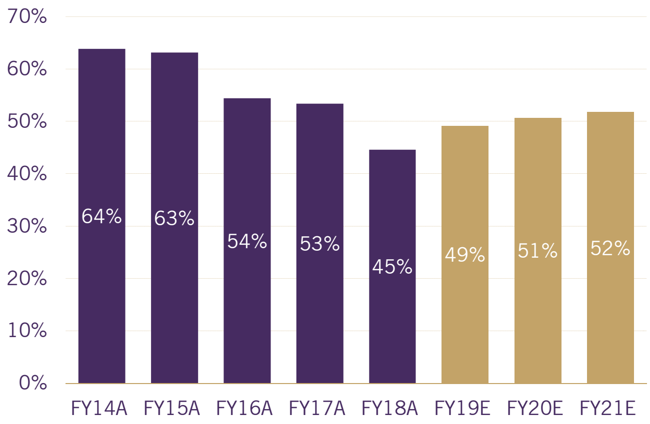
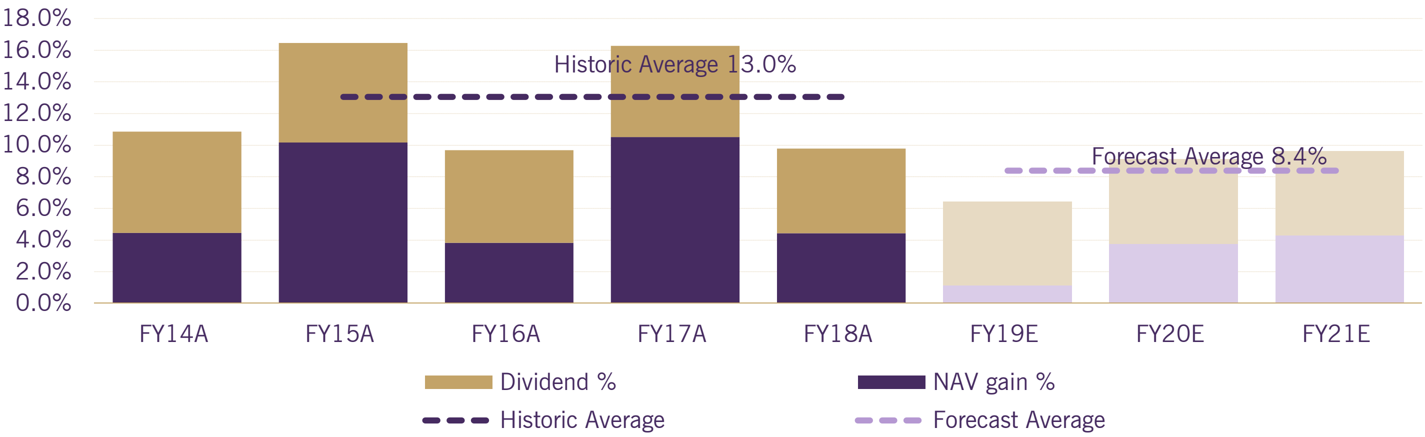


Chart 20: Total return and composition

Source: Company accounts, Peel Hunt estimates



Key financials and valuation metrics

Chart 21: Historic NAV growth and premium/discount

Source: Company accounts, Peel Hunt estimates

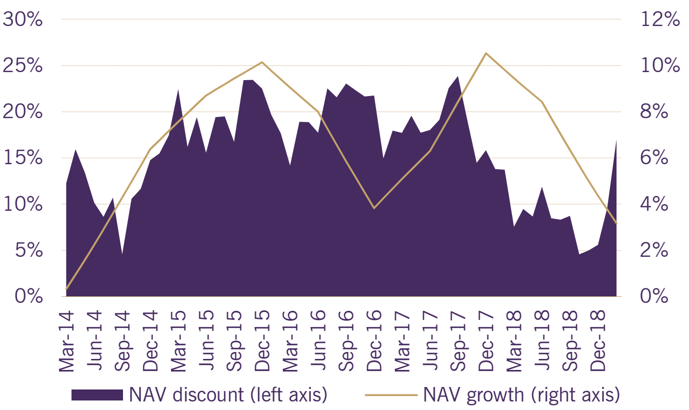


Chart 22: Dividend yield

Source: Company accounts, Datastream, Peel Hunt estimates

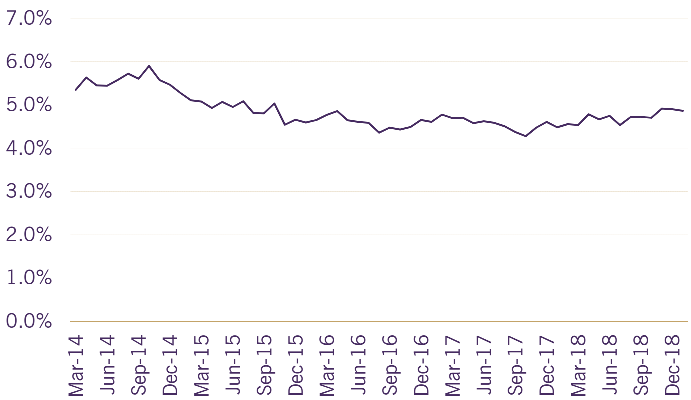


Chart 23: Relative share price performance

Source: Datastream

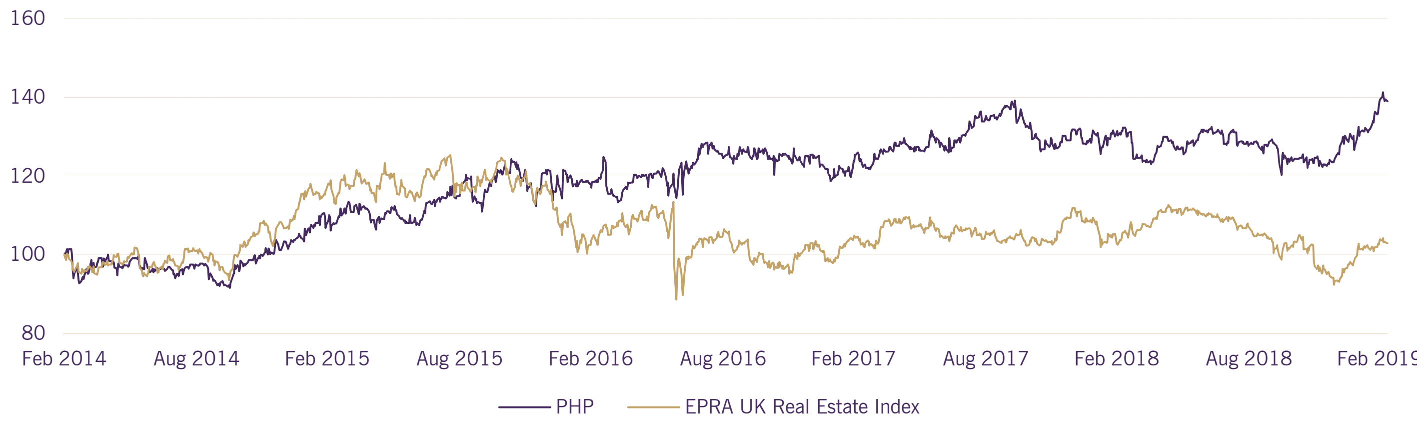


Chart 24: Portfolio composition

Source: Company accounts, Peel Hunt estimates

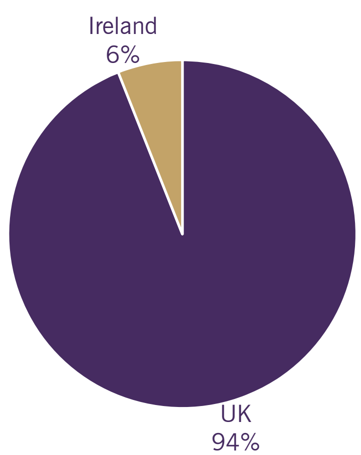
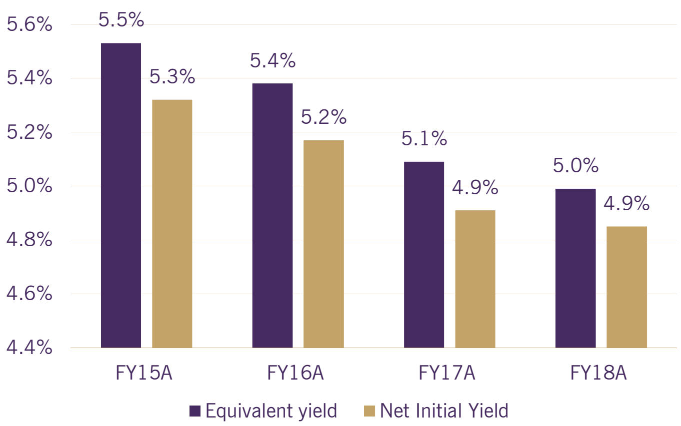


Chart 25: Property valuation yields

Source: Company accounts, Peel Hunt estimates



Recommendation structure and distribution

	Recommendation distribution at 15 March 2019				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	90	78	191	54	79	55
Add	8	7	51	14	7	16
Hold	10	9	82	23	8	22
Reduce	0	0	12	3	0	3
Sell	0	0	9	3	0	3
Under Review	7	6	8	2	6	2

Peel Hunt's Recommendation Structure is as follows:

Buy, > +15% expected absolute price performance over 12 months
Add, +5-15% range expected absolute price performance over 12 months
Hold, +/-5% range expected absolute price performance over 12 months
Reduce, -5-15% range expected absolute price performance over 12 months
Sell, > -15% expected absolute price performance over 12 months
Under Review (UR), Recommendation, Target Price and/or Forecasts suspended pending market events/regulation

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

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3	The Company holds >3% in Peel Hunt
4	Peel Hunt makes a market in this Company
5	Peel Hunt is Broker to this Company and therefore provides investment services to the Company
6	During the last 12 months Peel Hunt has received compensation from this company for the provision of investment banking services
7	During the last 12 months Peel Hunt has acted as a sponsor/broker/ NOMAD/ financial advisor for an offer of securities from this company
8	Peel Hunt holds >5% in Company (calculated under Market Abuse Regulation (EU) 596/2014)
9	1% beneficial ownership (calculated for purposes of FINRA under Section 13(d)/(g) of the Securities Exchange Act of 1934 and IIROC Rule 3400)
10	Peel Hunt holds a net long position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).
11	Peel Hunt holds a net short position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).

Recommendation history

Company	Disclosures	Date	Rec	Price	Target Price
Primary Health Properties	1,4,5,7	15 Mar 19	Buy	129p	UR
		22 Feb 18	Buy	116p	125p

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