

Morning Notes 24 February 2011

Primary Health Properties (PHP)

Buy

Data

Price	330p
Target price	345p
Market cap	£207.0m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2009A	2010E	2011E	2012E
Net Op Inc (£m)	18.0	21.7	25.1	27.6
Adj PBT (£m)	7.9	10.2	12.1	12.5
Adj EPS (p)	18.4	16.6	19.6	20.4
EPS growth (%)	53.6	(9.8)	18.2	3.9
DPS (p)	17.0	17.5	18.0	18.5
PER (x)	17.2	19.1	16.1	15.5
Div yield (%)	5.4	5.5	5.7	5.8
NAV/H'line (x)	279.9	323.8	344.6	367.7
NAV/3net (x)	247.2	270.1	290.8	313.9
Prem/H'line (%)	13.3	(2.1)	(8.0)	(13.8)
Prem/3net (%)	28.2	17.4	9.0	1.0

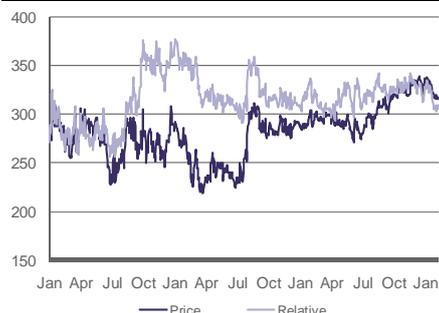
Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2011E	
	Old	New
Adj PBT (£m)	12.1	11.6
Adj EPS (p)	19.6	18.5
DPS (p)	18.0	nc
Adj. NAV (p)	345	332

Performance

Source: Bloomberg



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Finals: Acquisitions boost dividend cover

The company's focus is on quality of dividend and dividend growth, and this result is no exception. Acquisitions have replenished income and, although full dividend cover remains marginal, this will be bridged over coming periods. The dividend yield at 5.3% is top quartile, providing one of the safest, most reliable income distributions in the sector.

Key highlights

- **Adjusted NAV per share** slightly lower than expected at 312p, +2.3% for H2 after +8.7% increase in H1. The slowdown, as in other parts of the property market, is due to moderating yield shift as well as the drag from new acquisitions and associated costs. **Valuation increase** for the year is approximately +6.6%. The initial yield of the portfolio is 5.8% versus an equivalent yield of 6.0%.
- **PBT +15%** to £9.1m, equivalent to 14.5p.
- **DPS +2.9% to 17.5p for yield 5.3%**. Although uncovered, this will narrow over this year and next because of full-year contribution from acquisitions and continued rent reviews.
- LTV 58% vs covenanted level of 70%.

Forecasts for Dec 2011:

- Forecast Adjusted NAV per share reduced from 345p to 332p which reflects a lower starting NAV. Assumed portfolio growth of +2.5% is unchanged.
- Adjusted EPS reduced marginally from 19.6p to 18.5p due to higher overall financing costs. **DPS 18.0p for yield 5.5%**.

Comment

- **Acquisition activity** in 2010, totalling £102.6m, has resulted in an approximate +30% increase in the size of the portfolio to £469.3m. The meaningful increase in the size of the company is mirrored in rent roll having grown from £21.3m to £28.0m (+31%).
- The **contribution from rent reviews** also continues and despite our initial reservations that this would slow, the +3.2% increase recorded is in line with long-term trends and is only likely to strengthen from here due to inflation factors.
- **Implications of the NHS revolution** is two-fold: in the short run there is likely to be several months delay in commitment by some practices; thereafter the effect is extremely positive as the size of modern medical practices, with the provision of other services e.g. diagnostics, must expand much faster.
- The company has recently revised the terms of its management agreement with the joint managers. The implication for shareholders is a reduction/cost saving in the marginal overhead costs of the business as the company grows. This is a particularly important factor now that the portfolio stands at £503.6m including forward commitments of £31.2m. Incidentally, PHP is now the largest private owner of medi-centres in the UK.

Recommendation structure and distribution as at 24 February 2011		No	%
Buy	> +10% expected absolute price performance over 12 months	131	53
Hold	+/-10% range expected absolute price performance over 12 months	92	38
Sell	> -10% expected absolute price performance over 12 months	22	9

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Please note that the share price[s] used in this note was [were] the mid-market price[s] at the close on 23 February 2011.

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