

Panmure Gordon

AND COMPANY

Established 1876

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Equity Research

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Flash Note

PRIMARY HEALTH PROPERTIES PLC

H1 2019 results showing benefits of merger

This is the first set of results (NAV flat over the period in line with our expectation) post the MedicX merger and management highlights that the merger has already crystallised a number of synergies delivering a £4m pa reduction in costs and a 25bps reduction in the cost of debt. As always there will be a focus on open market rent reviews and PHP highlight that on average 0.9% pa was achieved on 94 open market reviews (note 30 had no uplift). Whilst this is still low, it is an improvement from last year (0.4% pa) and management state that it is starting to see an increase in the delivery of new premises which should start to provide evidence of growth.

The shares are up 21% year to date and are currently trading on a 28% premium to reported NAV. Whilst this appears expensive, from an earnings perspective the shares are offering a 4.1% dividend yield growing at 2-3% which looks fair value given the security and longevity of the income stream and we retain our Hold rating.

- ▶ **NAV of 105p** in line with our estimate of 105p, showing growth of 0.1% over the past 6 months. The property portfolio is valued at £2.3bn post the merger, nearly double that at December 2018 of £1.5bn. There was a LfL portfolio valuation increase of 0.8% over the 6 months. The NIY on the portfolio remains stable at 4.85%.

EPS of 2.8p compared with our forecast of 2.6p, and up 12% on the previous year. LfL contracted rent roll has increased by 0.8%. On rent reviews an average of 1.9% pa uplift was achieved compared with 1.4% in 2018 and 1.1% in 2017. The 94 open market rent reviews reported growth of 0.9% pa (including 30 reviews where no uplift was achieved).

DPS of 2.8p in line with our forecast of 2.8p, showing growth of 3.7%. Dividend cover is 100%.

- ▶ **Activity update:** Over the period five properties have been acquired for a total of £31.3m and today the company announces the acquisition of a centre in Ireland for €11m. A strong pipeline of acquisitions is stated of approximately £150m (£70m in legals currently).

- ▶ **Debt:** The LTV is 47.9%. The average cost of debt has decreased slightly to 3.75%, and the average debt maturity has been lengthened to 7.6 years. Post period end there has been the issue of a new £150m unsecured convertible bond.

HOLD

(Remains Unchanged)

Target Price: 128p (unchanged)

Share Price: 134p

(Price at close 24 July 2019)

Stock Codes PHP.L / PHP LN

Market Cap £1527m

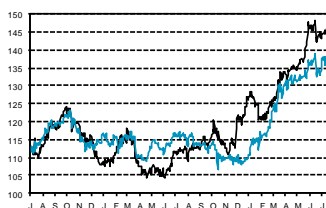
Sector Real Estate

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Absolute & Relative Performance



— Absolute

— Relative to DS Real Estate

Source Datastream

Investment Research

Year End	NAV	Premium/(discount) to NAV	NAV Growth	DPS ord	Yield	EPS	P/E
Dec	p	%	%	p	%	p	x
2018A	105	27.8	4.4	5.4	4.0	5.2	25.8
2019E	106	26.4	1.2	5.6	4.2	5.6	23.9
2020E	110	22.4	3.3	5.8	4.3	5.9	22.8
2021E	114	17.7	4.0	6.0	4.4	6.1	21.9

Source Company Data, Panmure Gordon

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Distribution of investment ratings for equity research (as of 8 May 19)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
66% (47%)	27% (8%)	7% (0%)	Sell	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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