

## Add

25 July 2019

## DATA

Price (close 23/7)	135p
Target price	145p
Market cap	£1,536m
NAV	105p
Index	FTSE 250
Sector	Real Estate

## STATS (PRIOR TO CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2018A	2019E	2020E	2021E
Net Op Inc (£m)	76.4	115.0	132.7	141.9
Adj EPS (p)	5.4	5.7	6.2	6.6
EPS growth (%)	2.5	5.9	8.0	7.2
PER (x)	25.1	23.7	22.0	20.5
DPS (p)	5.4	5.6	5.7	5.9
Div yield (%)	4.0	4.1	4.2	4.3
Adj NAV (p)	105.1	106.6	110.5	115.3
NAV/3net (p)	102.5	104.4	108.4	113.1
Disc/Nav (%)	28.6	26.9	22.3	17.3
Disc/3net (%)	32.0	29.5	24.8	19.5

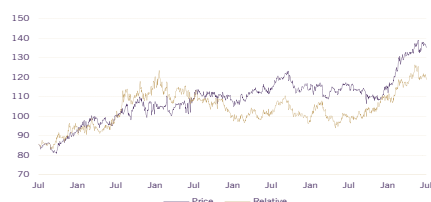
## CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2019E	2019E
	Old	New
Adj NAV (p)	107	nc
Adj EPS (p)	5.7	6.0
DPS (p)	5.6	nc

## PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

Primary Health Properties<sup>#</sup>

PHP

## Interims: EPS upgrades following MedicX integration

Today's interims are ahead of expectations, the integration of MedicX continues to progress as expected and today we increase our EPS forecasts. Like most income REITs that are exposed to structurally supportive sectors, PHP now trades on a significant 26% premium to NAV. However, the 4.2% dividend yield still looks attractive given the super-secure income stream, the pipeline of acquisition opportunities, the improving rental growth outlook and the longer term refinancing opportunity.

- **EPRA EPS increased +12% to 2.8p** and excluding the performance fee, this would have been 2.9p. This looks ahead of our forecasts (FY: 5.7p) and EPS in H2 should be stronger given the full benefits of the MedicX deal, recent acquisitions and the recent refinancing of the retail bond with a convertible.
- This is the **23<sup>rd</sup> consecutive year of dividend growth** with 2.8p paid and a Q3 dividend of 1.4p declared, equating to a **4% increase on last year**.
- **EPRA NAV was flat at 105p**, which looks in line with our expectations. Costs associated with the MedicX merger (-1.4p) broadly offset the valuation uplift (+1.6p) and the company now requires a similar valuation uplift in H2 to achieve our 107p full-year forecast.
- The **LFL portfolio increased by 0.8%**, driven entirely by rental growth. The net initial yield was flat at 4.85% – the first period with no yield compression for a number of years. Although our forecast assumes no further yield compression, we believe GP surgeries still looks good value compared to other long income property with weaker fundamentals and/or weaker covenants.
- A **1.9% p.a uplift on rent reviews** is further evidence that rents are starting to increase following a +1.4% increase in 2018 and +1.1% in 2017. This includes a 0.9% uplift on open-market reviews. We believe rental growth will continue to increase, albeit gradually, and will become an important driver of growth.
- During H1, PHP made **£31m of acquisitions** and PHP has a further pipeline of £150m including £70m in legal due diligence.
- Post period-end the company acquired its 15<sup>th</sup> asset in Ireland, which upon completion of developments will account for c8% of the portfolio. The yield differential between Ireland and the UK remains significant and combined with lower financing costs, it remains an important focus for growth.
- Post the MedicX acquisition, the company's LTV increases slightly to 48% (from 45%) and following the recent convertible bond, the average cost of debt stands at 3.75% whilst the average maturity has increased to 7.6 years.

## FY Dec 19 forecasts:

- **Adj EPS upgraded by 5% to 6.0p** from 5.7p (this excl. the performance fee).
- **DPS is unchanged at 5.6p for a 4.2% yield** and 107% cover.
- **EPRA NAV unchanged at 107p for a 26% NAV premium**.

## Recommendation structure and distribution

	Recommendation distribution at 24 July 2019				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	85	74	188	53	75	55
Add	14	12	56	16	12	16
Hold	11	10	83	23	8	22
Reduce	0	0	14	4	0	4
Sell	0	0	7	2	0	2
Under Review	5	4	6	2	4	1

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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## Recommendation history

Company	Disclosures	Date	Rec	Price	Target Price
Primary Health Properties	1,4,5,7	17 Jun 19	Add	139p	145p
		18 Mar 19	Buy	130p	140p
		15 Mar 19	Buy	129p	UR
		11 Jun 18	Buy	113p	125p

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