

Add

26 September 2019

DATA

Price (close 24/9)	132.6p
Target price	145p
Market cap	£1,610m
Index	FTSE 250
Sector	Real Estate

STATS (POST CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2018A	2019E	2020E	2021E
NetOpInc (£m)	76.4	113.3	128.5	137.8
Adj EPS (p)	5.4	5.8	5.9	6.4
EPSgrowth (%)	2.5	8.8	0.8	9.2
PER (x)	25	23	23	21
DPS (p)	5.4	5.6	5.8	6.0
Div yield (%)	4.1	4.2	4.4	4.5
Adj NAV (p)	105	108	111	115
NAV/3net (p)	102	106	109	113
Disc/Nav (%)	26	23	19	15
Disc/3net (%)	29	25	22	17

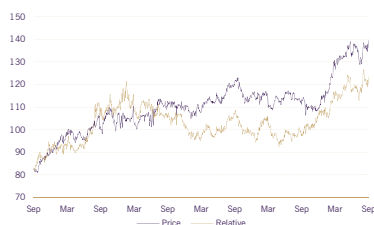
CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2019E Old	2019E New
Adj NAV (p)	107	108
Adj EPS (p)	6.0	5.8
DPS (p)	5.6	n/c

PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

Primary Health Properties[#]

PHP

£100m placing for further growth

PHP has raised £100m through the placing of 78.125m shares with new and existing institutional shareholders. Proceeds from the issue will fund an accretive pipeline of development opportunities, the majority of which are in Ireland where income yields are materially higher than in the UK. The issue further increases the company's market value, should enhance liquidity, and reduces LTV. The 128p placing price reflects a 22% premium to NAV and leads to a small NAV upgrade, whilst initial EPS dilution is minimal.

£100m placing of new shares

- On Tuesday, PHP raised £100m of new equity. Following strong demand, the issue size was increased from £75m, with 78.125m shares placed with existing and new institutional shareholders.
- The price of 128p reflects:
 - An 8% discount to the prior day's close (139.8p), a 5% discount to the three-month average price (134.9p) and a 4% discount to the intra-day price when pricing was decided.
 - A 22% premium to the adjusted EPRA NAV per share as of June 2019 (105.2p).
 - A dividend yield of 4.4%, which is fully covered by recurring earnings.

Use of proceeds

The proceeds of the issue will be used to fund an increasing number of development opportunities both in Ireland and the UK.

- PHP is contracted to fund the development of eight new centres for £60m. The majority (£45m) are located in Ireland, where yields are materially higher than the UK.
- The company has another £70m of near-term development opportunities in legal due diligence and/or with commercial terms agreed. The majority of these are also located in Ireland (£50m).
- In addition to the above, the company has various asset management projects that will utilise c£5m, and the company retains its significant acquisition pipeline of standing investments.

Initial financial implications

- We estimate that the placing initially reduces LTV to 44% (from 48%). We then expect LTV to gradually rise as acquisitions/developments are committed. We estimate that LTV rises by around 2% for every £100m that is deployed.
- The c78m new shares equates to around 6% of issued share capital and simply assuming that the proceeds initially sit on the balance sheet as cash, the initial dilution for FY19 is likely to be around 2% given the shares will be in issue for a quarter of the financial year.

- As acquisitions/developments complete, this will clearly be accretive to EPS given the low marginal cost of debt, the low running costs of the business and the significantly higher yields on offer in Ireland.
- The placing price is at a 22% premium to June 2019 NAV and even after issue costs, the raise will be accretive to our December 2019 NAV forecast, adding approximately 1% or 1p.

Chart 1: Accretion on UK purchases

Source: Company accounts, Peel Hunt estimates

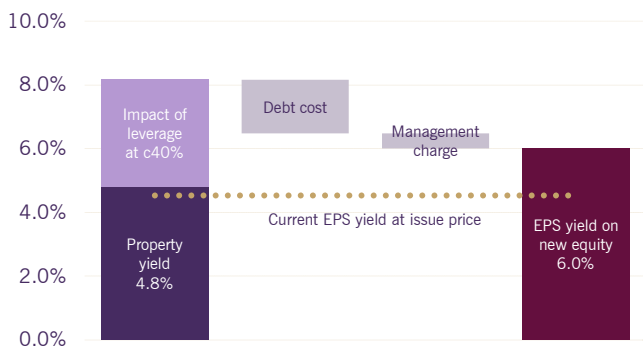
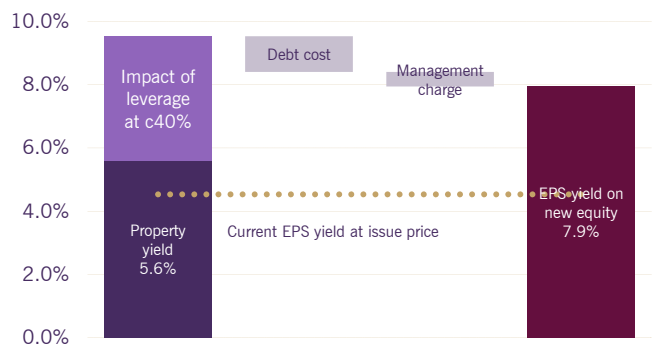


Chart 2: Accretion on Irish purchases

Source: Company accounts, Peel Hunt estimates



Benefits of the raise

- **Accretion** – As shown in charts 1 and 2, even assuming relatively low leverage against the fresh equity (40% LTV), expansion in both the UK and Ireland will both be accretive to shareholders given the low marginal cost of debt and the low ongoing management charges. The issue price of 128p will also be accretive to the NAV, which was last reported at 105p.
- **Additional liquidity** – The issue will further increase PHP’s market cap to above £1.6bn. This is almost double the market cap of just 12 months ago and is more than four times the market cap of five years ago.
- **Reduces LTV** – The company’s LTV reduces by around 400bps to 44% immediately after the issue and, on our forecasts, LTV remains lower by 300bps on average over each of the next three financial years.
- **Expansion in Ireland** – The majority of PHP’s near-term pipeline is located in Ireland where yields that are almost 100bps higher than the UK offer additional income and also look set to benefit from greater yield compression. We estimate that the near-term pipeline will increase PHP’s Irish portfolio to c€280m (from €174m at June 2019).

Debt refinancing opportunity remains

- Earlier this month, PHP issued €70m of secured notes, attracting a fixed rate of 1.509% for a period of 12 years.
- With half of the c£1.4bn debt book maturing in the next 5½ years, there is an opportunity to reduce the average cost of debt from 3.75% reported in June.
- Such refinancing activity – and the accretion it could deliver – is not captured in our forecasts. The company has around £1.4bn of debt facilities and we estimate that for every 25bps in interest saving, EPS will increase by around 5%.

Chart 3: Debt maturity profile, 30 June 2019

Source: Company accounts

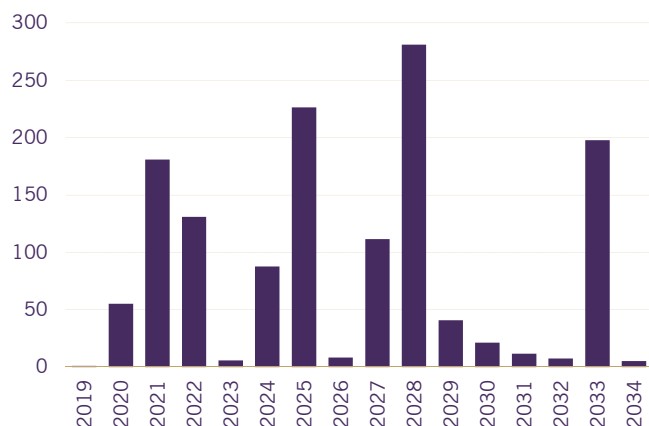
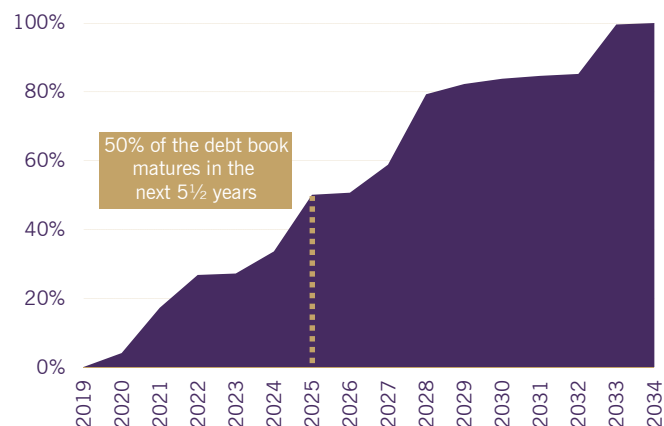


Chart 4: Cumulative debt maturities

Source: Company accounts, Peel Hunt estimates



New Peel Hunt forecasts

December 2019 forecasts

- EPRA NAV per share is increased marginally to 108p (from 107p) to account for the issue price, which is at a material premium. We forecast an 8% total return for 2019.
- Adj EPS is reduced slightly to 5.8p (from 6.0p) to account for the initial cash-drag following the equity placing.
- DPS is unchanged at 5.6p for a 4.4% yield (on the issue price), which remains fully covered by earnings.

December 2020 and December 2021 forecasts

- Our December 2020 and December 2021 EPS forecasts are reduced slightly to 5.9p (from 6.2p) and 6.4p (from 6.6p), respectively. This accounts for the marginal EPS dilution following the raise and until the development assets are contracted, built out, and income generating.
- EPRA NAV per share for 2020 and 2021 remain unchanged and we forecast total returns of 8% and 9% over 2020 and 2021.
- DPS of 5.8p and 6.0p for 2020 and 2021, respectively are unchanged for yields of 4.4% and 4.5%.

Table 1: New Peel Hunt forecasts

Source: Company accounts, Peel Hunt estimates

	FY19E		FY20E		FY21E	
	New	Old	New	Old	New	Old
Adj EPS	5.8	6.0	5.9	6.2	6.4	6.6
DPS	5.6	5.6	5.8	5.8	6.0	6.0
Yield	4.2%		4.4%		4.5%	
Cover	1.0x		1.0x		1.1x	
EPRA NAV per share	108	107	111	111	115	115
Discount/premium	23%		19%		15%	
NAV growth	2.5%		3.1%		3.7%	
Total return	7.9%		8.4%		9.1%	

Key financials and valuation metrics

Table 2: Income statement

Source: Company accounts, Peel Hunt estimates

Y/end Dec	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E
Gross rent	60.0	63.1	67.4	72.5	79.6	118.8	134.0	143.7
Direct costs	-0.7	-0.9	-0.9	-1.2	-3.2	-5.5	-5.5	-5.9
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	113.3	128.5	137.8
Admin expenses	-6.8	-6.8	-7.3	-8.2	-8.6	-10.3	-12.4	-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	103.0	116.0	124.8
PH cost ratio	-13%	-12%	-12%	-13%	-15%	-13%	-13%	-13%
Net finance costs	-34.3	-33.7	-32.5	-31.6	-29.7	-40.9	-44.7	-47.3
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	62.1	71.3	77.5
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	62.1	71.3	77.5
Weighted average shares	444m	446m	560m	601m	709m	1,077m	1,214m	1,214m
Adjusted earnings per share	4.1p	4.9p	4.8p	5.2p	5.4p	5.8p	5.9p	6.4p
P/E ratio	32x	27x	28x	25x	25x	23x	23x	21x
Ordinary dividend per share	4.9p	5.0p	5.1p	5.3p	5.4p	5.6p	5.8p	6.0p
Special dividend per share	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p
<i>Dividend yield (incl. special)</i>	<i>3.7%</i>	<i>3.8%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>4.1%</i>	<i>4.2%</i>	<i>4.4%</i>	<i>4.5%</i>
Dividend cover (excl. special)	0.8x	1.0x	0.9x	1.0x	1.0x	1.0x	1.0x	1.1x

Table 3: Balance sheet

Source: Company accounts, Peel Hunt estimates

Y/end Dec	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E
Investment property	1,026	1,101	1,220	1,362	1,503	2,390	2,579	2,775
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	150	26	29
Other assets	6	4	3	7	5	15	15	15
TOTAL ASSETS	1,044	1,108	1,229	1,372	1,514	2,555	2,620	2,819
Bank debt and bonds	-667	-698	-668	-730	-676	-1,194	-1,219	-1,369
Other	-68	-65	-61	-55	-50	-78	-78	-78
TOTAL LIABILITIES	-735	-762	-729	-786	-726	-1,272	-1,297	-1,447
LTV	64%	63%	54%	53%	45%	44%	46%	48%
Basic NAV	£309m	£345m	£499m	£587m	£788m	£1,284m	£1,323m	£1,372m
Adj NAV	£422m	£466m	£622m	£687m	£834m	£1,308m	£1,348m	£1,396m
Closing number of shares	530m	531m	683m	683m	793m	1,214m	1,214m	1,214m
Adj NAV per share	80p	88p	91p	101p	105p	108p	111p	115p
<i>Discount/Premium</i>	<i>66%</i>	<i>51%</i>	<i>46%</i>	<i>32%</i>	<i>26%</i>	<i>23%</i>	<i>19%</i>	<i>15%</i>

Key financials and valuation metrics

Chart 5: Earnings per share

Source: Company accounts, Peel Hunt estimates

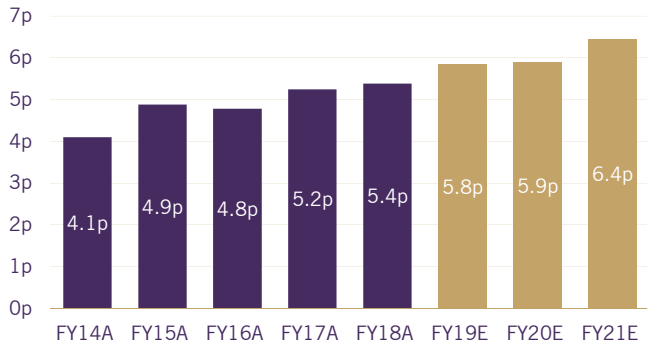


Chart 6: Dividends per share

Source: Company accounts, Peel Hunt estimates

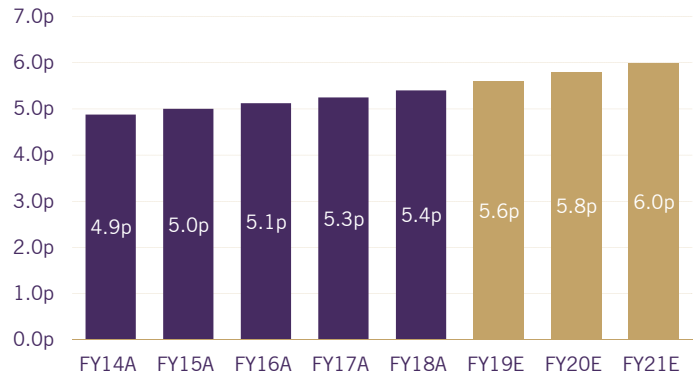


Chart 7: Adjusted NAV per share

Source: Company accounts, Peel Hunt estimates

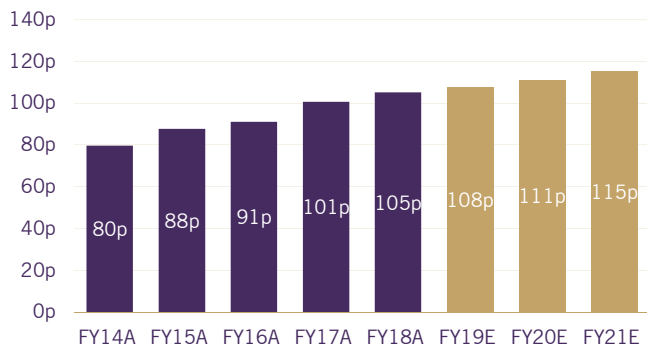


Chart 8: Loan to value

Source: Company accounts, Peel Hunt estimates

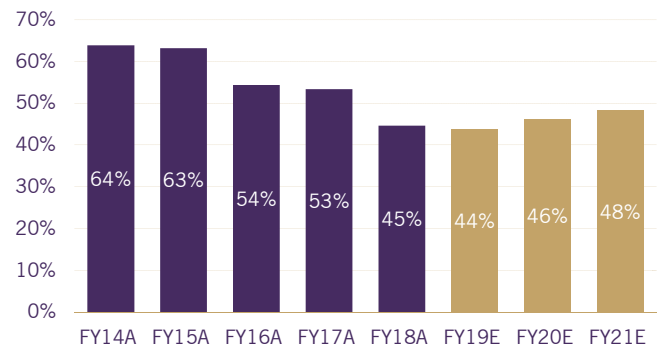
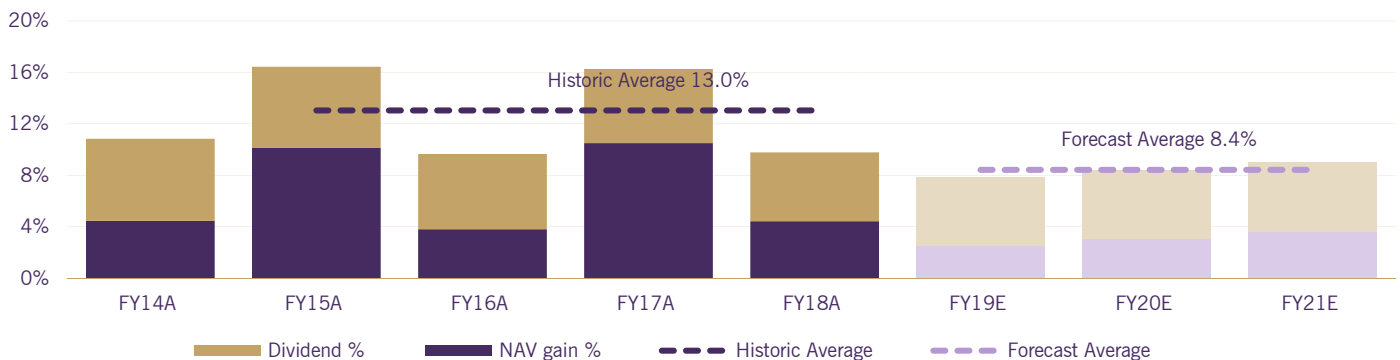


Chart 9: Total return and composition

Source: Company accounts, Peel Hunt estimates



Key financials and valuation metrics

Chart 10: Historic NAV growth and premium/discount

Source: Company accounts, Peel Hunt estimates

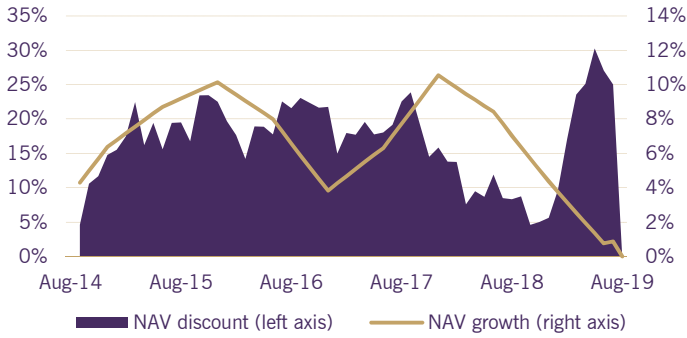


Chart 11: Dividend yield

Source: Company accounts, Peel Hunt estimates

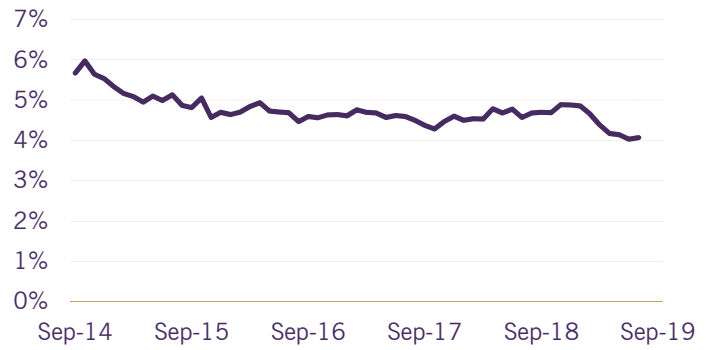


Chart 12: Relative share price performance

Source: Company accounts, Peel Hunt estimates

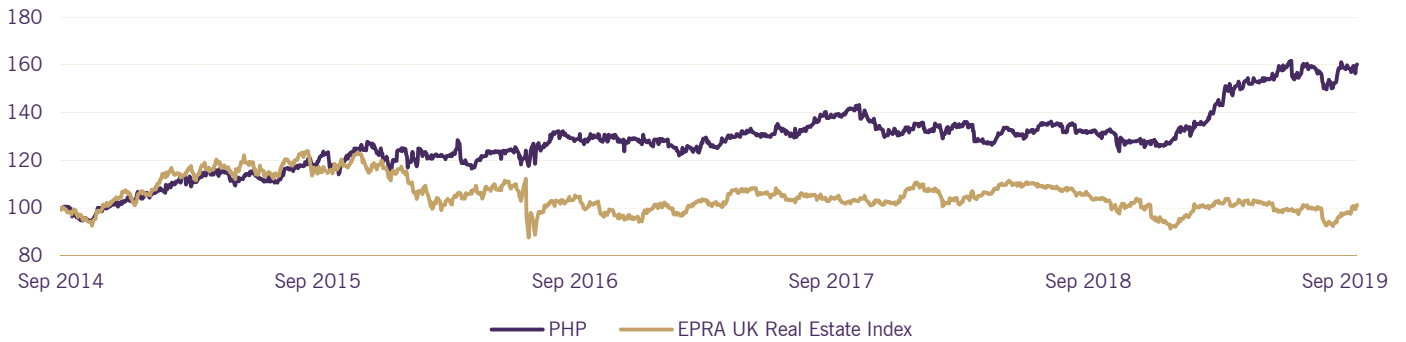


Chart 13: Portfolio composition

Source: Company accounts, Peel Hunt estimates

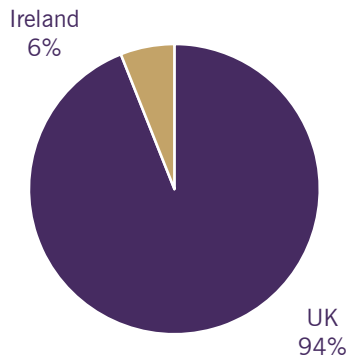
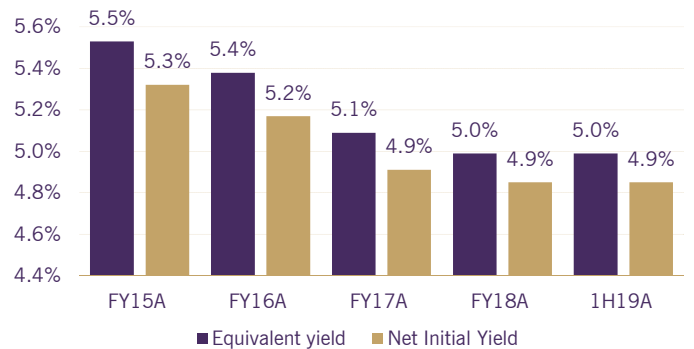


Chart 14: Property valuation yields

Source: Company accounts, Peel Hunt estimates



Recommendation structure and distribution

	Recommendation distribution at 25 September 2019				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	89	80	195	56	81	57
Add	11	10	52	15	10	15
Hold	8	7	79	23	7	21
Reduce	0	0	11	3	0	3
Sell	0	0	8	2	0	2
Under Review	3	3	5	1	2	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
		04 Sep 18	Buy	114p	125p

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