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Prices as at open on 13 January 2016

Executive summary

Government-backed, 15-year leases and no voids

The most secure income streams
PHP, MedicX and Assura all own GP surgeries in the UK, operating entirely within the NHS. Their rental streams are the most secure in the sector, with c90% from the UK government (either direct or indirect), with negligible or no vacancy and very long leases (c15 years). Compared with comparable gilts, the property offers 2.5x the return with very little additional risk.

An ageing and growing population will increase demand

A growth sector that needs investment
The government backs care in the local community and, grounded on this underlying medical demand, the outlook for the sector looks very positive. The average person visits the doctor twice as often as they did just 10 years ago (BMA); the population of the UK is expected to both increase and age (Chart 6); 40% of UK surgeries are already classified as inadequate, while 70% are too small to provide any further service (BMA). The three companies have a combined market cap of £1.7bn and own just 7% of all surgeries in the UK.

Property yields look conservative and we expect to see significant compression

Conservative yields
We see significant room for valuation yield compression over the medium term, with the average property yield of 5.4% looking very conservative compared with 15-year gilts (2.1% yield), the marginal cost of financing (c3.5% for five-year fixed) and other property asset classes. For example, long-let supermarkets yield 4-5% despite the structural change and far weaker financial covenants.

The rental growth outlook is also improving

Improving rental growth outlook
In the short term we expect rental growth to continue to be muted, but as new developments commence rents will need to rise. Construction costs have risen +10% over the past three years and regional land prices by +20%, while rents have risen by just 6% on average for the listed companies. The district valuers that mediate on medical rents will have to take note.

Broadly similar portfolios
PHP has the largest portfolio (£1,075m) followed by Assura (£1,025m) and MedicX (£553m). All three have similar characteristics, but Assura's lot size and lease lengths are slightly smaller/shorter and MedicX has more in London/SE.

PHP is the most efficient company in the UK real estate sector

PHP is the most cost efficient company in the sector
PHP's cost base is the not just the most efficient of the three medical companies, but it is the most efficient UK real estate company, with an EPRA cost ratio of 12% – a full one-third more efficient than Assura and MedicX. Over our three-year forecast horizon, PHP remains the most efficient company, while MedicX is the least efficient on average going forward, despite the recent reductions to the management contract.

MedicX's debt structure is the best, with the longest maturity and cheapest cost

All three companies have improved the quality of their debt books
Assura has the highest cost of debt and, despite the outlook for strong yield compression, recently opted to reduce its LTV to just 27%. Assura targets an LTV range of 40-50%, but this requires £350m of acquisitions and this will take several years. MedicX (51% LTV) has opted for very long-term debt (14-year average) and, despite its being fairly inflexible, we believe this is the best debt structure of the three. The overall cost of debt for PHP (63% LTV or c55%

excluding convertible) has reduced dramatically in recent years (now under 5%), but the average maturity of six years (or c8-9 years excluding the flexible term loans/convertible) is still shorter than MedicX.

Structure – internal (Assura) or external (PHP & MedicX?

We will normally prefer internally managed vehicles, but the super-efficient nature of PHP (the most efficient company in the entire UK listed real estate sector), combined with its high management share ownership, puts a different slant from usual – PHP's management is certainly playing fair in our view. We don't see an internalisation as likely for PHP or MedicX and, although the adverse impact on NAV of a potential internalisation is a commonly cited concern from investors, our calculations suggest this would not be the case (page 14). PHP's long-term track record is also impressive, with a 19-year record of increasing dividends (one of just a handful of companies in the entire UK market to have achieved this) and a compound annual return since inception of 14%.

Valuation – PHP the best value

Given the nature of the three vehicles, we value the companies predominantly on their earnings and earnings growth outlook with some support from their dividend yields. Assura is notably more expensive than MedicX and PHP on current P/E ratios, on future P/E ratios, and even after excluding the impact of lower leverage (EBIT/EV). While this premium may be justified over MedicX, given their expensive external contract and inefficiencies associated with an uncovered dividend (tax/equity issue fees), we do not believe it is justified over PHP given the latter's more efficient cost base, lower cost of debt, extremely impressive track record and higher earnings/NAV growth.

Table 1: Key metrics

Source: Peel Hunt estimates

	Market cap	LTV (pro-forma)	2016 P/E Ratio	2016 EV/EBIT	2016 NAV Premium	2016 DPS yield	3-year EPS growth	3-year total return
PHP	£464m	63%	18x	20x	11%	4.9%	47%	48%
Assura	£897m	27%	23x	22x	14%	4.0%	25%	29%
MedicX	£311m	53%	20x	20x	13%	7.1%	32%	39%

2016 relates to: PHP = Dec 2016, Assura = Mar 2017, MedicX = Sep 2016

PHP is our preferred pick because of its cheap valuation, the highest returns, the most efficient cost base and impressive track record

PHP[#] (Buy, TP 125p) – our preferred play on the sector

We retain our Buy recommendation on PHP and today further upgrade our forecasts. On our numbers, PHP has the lowest P/E ratio (18x), the highest earnings growth (47% over three years), the smallest NAV premium (11%) and the biggest total return (48%). Although externally managed, the company is the most efficient, not just of its peers but of the UK real estate sector, and management's track record speaks for itself. After several years of partially covered dividends, we forecast full cover from here on and management has also committed to a fully covered dividend. Leverage is high at 63%, but this will enhance returns in the short term, excluding the convertible, this reduces to c55% LTV and we also show how an equity issue could significantly reduce leverage without adversely impacting returns/valuation.

Corporate client of Peel Hunt

Assura's share price has risen +91% since the management joined and now looks fully priced

Assura (Hold, TP 55p) – fully priced

We initiate coverage on Assura with a Hold rating and a 55p target price. The transformation by the new management team since 2012 has been impressive, but, given the very strong share price performance (+90% since Graham Roberts joined), the lower earnings/NAV growth and the current premium on which the shares trade compared with its peers (especially PHP), we initiate with a Hold.

MedicX is moving in the right direction with a reducing cost base and improving dividend cover, but it will take time

MedicX (Hold, TP 85p) – Moving in the right direction…

MedicX has the highest dividend yield of the three companies at 7.1%, but this was covered just 63% for 2015 and, although we see this rising, it remains an inefficient way of distributing returns to shareholders. The recent reduction in the management contract is welcome, but the full benefit will not be recognised for some time, and even then the fees are still significantly higher than at PHP. On valuation, the shares trade more cheaply than Assura (which is justified) but around 10% more expensive than PHP, despite the latter's higher growth and more efficient cost structure.

The industry

PHP, Assura and MedicX have similar property portfolios – c90% of each company consists of GP surgeries or other NHS users where the rental income is funded by the UK government. The remaining 10% of the portfolios generally consists of pharmacies that are built adjacent to the surgeries.

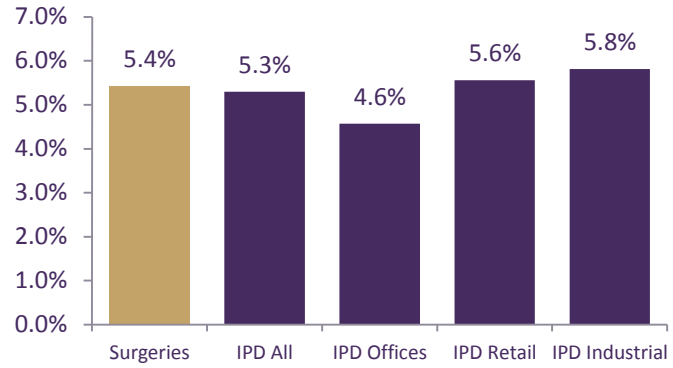
The yields look very conservative and yield compression looks likely

Short-term outlook – yield compression looks likely

The property yield on GP surgeries – 5.4% on average across the three listed companies – is now above that of IPD All Property for the first time since the crash (Charts 1 and 3). Given the government-backed income, very long leases (c15 years unexpired) and extremely low vacancy, this looks very good value. For comparison, large food store units still trade on yields around 4.25% according to CBRE, and are clearly a far weaker covenant going through significant structural change.

Chart 1: GP surgery initial yields versus other property

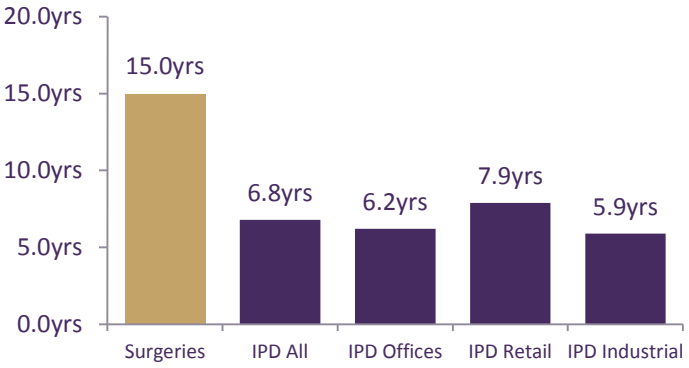
Source: Company accounts, IPD, Peel Hunt estimates



Note: Surgeries is average of PHP, Assura and MedicX last reported.

Chart 2: Surgery unexpired lease lengths vs. other property

Source: Company accounts, Peel Hunt estimates



Note: IPD lease lengths are average on new leases being signed.

Given the government-backed income and long lease duration, we believe it also makes sense to compare the portfolio with 10-year government bonds (chart 4); this also makes the property yields look good value.

Chart 3: GP surgery yields versus IPD

Source: Company accounts, IPD, Peel Hunt estimates

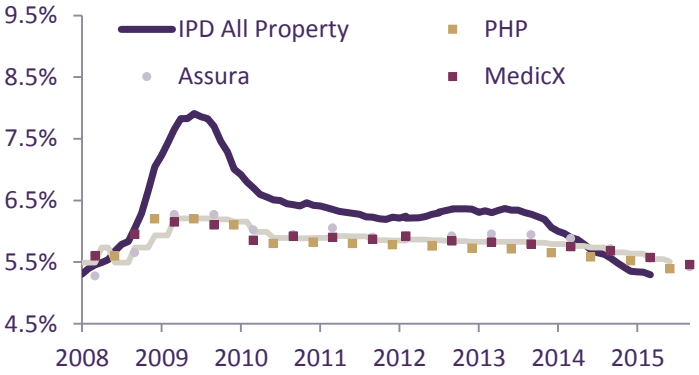
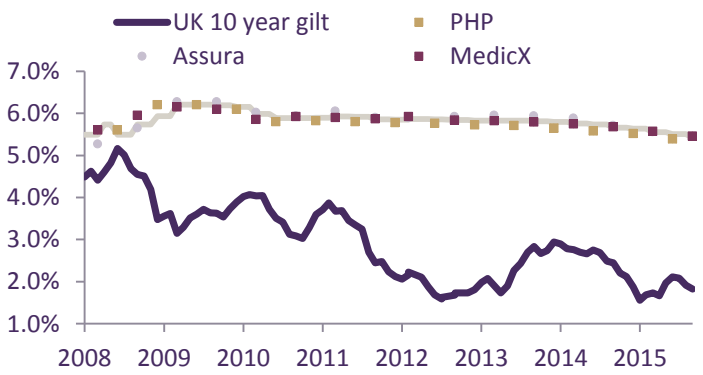


Chart 4: GP surgery yields versus 10-year gilts

Source: Company accounts, , DataStream, Peel Hunt estimates



So why are the yields so high?

- **Lot size** – The listed primary health care companies typically concentrate on the larger, purpose-built centres, but the average lot sizes (£3m-4m) are still low compared with other property sectors. This largely excludes institutional investors from the market, including UK funds, sovereign wealth and foreign investors.

A portfolio of assets is likely to be worth at least 10% more

- Like all UK companies, PHP, Assura and MedicX are not allowed to apply a 'portfolio premium' in their accounts, but we are confident a large portfolio would achieve a significant premium over the individual property yields. Unite estimates that up to 10% premiums are currently paid in student accommodation for example, and MedicX also recently commented that a 5% yield would not be unreasonable (c10% premium to their 5.4% yield).
- **Limited rental growth** – Over the long term rental growth has averaged around 3% per annum, but this has reduced over the last few years. However, we are more optimistic about the medium term (see pages 10-11).
- **Stable asset class** – Given the long leases and secure covenant, the valuations have been much more stable than other property yields – typically under-performing the wider property sector in good years and then massively outperforming in bad years.

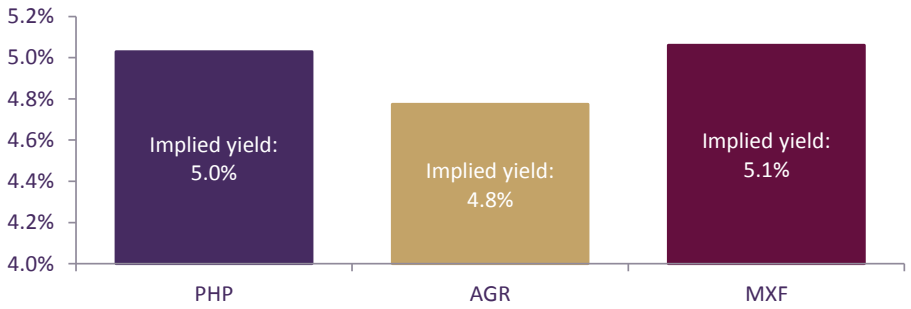
How much yield compression is needed to reduce the premiums?

The current NAV premiums imply property yields of c5.0%

All three companies currently trade on significant premiums to NAV, but in Chart 5 below we show the implied yield on which the property would need to be valued in order to close the gap. PHP and MedicX would require valuation yields of 5.0% and 5.1% respectively, while Assura would need 4.8% because of the lower leverage (so it needs more capital growth to increase the NAV). Valuing these properties at 5.0% or even lower does not look excessive, given the characteristics described above and on the next few pages.

Chart 5: Property yield implied by current NAV premium

Source: Company accounts, Peel Hunt estimates



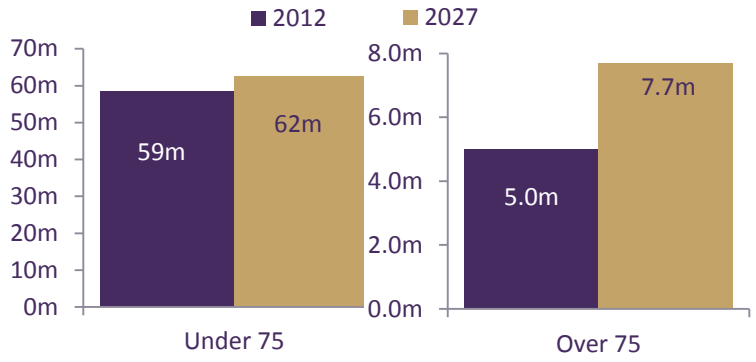
The longer-term outlook also looks positive:

The number of patients is increasing:

- The population of the UK is expected to increase by +10% over the next 15 years, and the average person already visits a surgery six times a year – double the frequency 10 years ago
- People aged over 75 typically visit the doctor twice as frequently as the rest of the population. The number of over-75s is expected to increase by over 50%, from 5m in 2012 to almost 7.7m by 2027 (+3% per annum increase).
- These two population increases imply around 55m extra visits will be made to GP surgeries per annum by 2027, or a +16% increase on current levels.

Chart 6: Population growth

Source: ONS, Peel Hunt estimates



Primary care is at the centre of government plans

- The government's continued focus on increasing the services that primary health care centres provide (minor surgery, for example) and an increasing trend of longer-term illnesses (such as diabetes) will further increase the strain on primary health centres.
- The NHS's 'five year forward view' includes the following points:
  - "*The foundation of NHS care will remain list-based primary care. Given the pressures they are under, we need a 'new deal' for GPs. Over the next five years the NHS will invest more in primary car*e"
  - "*The NHS will take decisive steps to break down the barriers in how care is provided between family doctors and hospitals, between physical and mental health, between health and social ca*re."

  With 1.7m employees, the broader NHS is the UK's largest employer and an archetypical slow-mover in implementing strategy. But the immediate financial difficulties at NHS trust local level must, we believe, speed action. The primary care providers, including the three companies in this report, are a politically non-controversial, vital provider of some additional expansion and new ideas.

The existing infrastructure is already struggling to cope….

- 40% of surgeries are not currently classified as adequate, while 70% of GP practices are not currently large enough to provide additional services. Less than 50% have seen any investment or refurbishment in the past 10 years!

- Patients tried and failed to book 34m GP appointments last year – up 90% on 2013/14.

(Sources: British Medical Association, ONS, NHS five year forward view)

Conclusion

Despite underperforming IPD over the past few years (which has been driven by rapid rental growth in London and yield compression elsewhere), the property yield looks very conservative compared with other long-let property (and government bonds), and the medium-term outlook for rental growth is also improving. We increase our assumptions for PHP, and this is also reflected in our new numbers for Assura and MedicX.

Property portfolio

The three companies' property portfolios are broadly similar, with the key differences being:

Average lease length of 15 years

- Assura's average unexpired lease length (14.1 years) is marginally shorter than that for PHP (15.1 years) and MedicX (15.8 years), although our understanding is that the valuation is not impacted to a great degree as long as lease lengths are over 10 years.

Assura's lot size is marginally smaller than its peers

- Assura's lot size is c15% lower than its peers. MedicX and PHP are both concentrating new purchases on larger health centres, which they believe have a greater long-term future given the changes to the NHS; these are encouraging more procedures to be carried out at surgeries (rather than at hospitals, which are more expensive). Assura believes smaller assets can offer interesting development opportunities: either extensions, or the potential to build a brand new centre to replace an inadequate centre.

Chart 7: Net initial yield

Source: Company accounts, Peel Hunt estimates

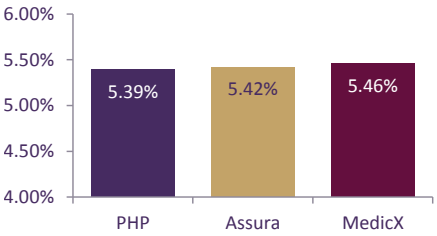


Chart 8: Average lease length

Source: Company accounts, Peel Hunt estimates

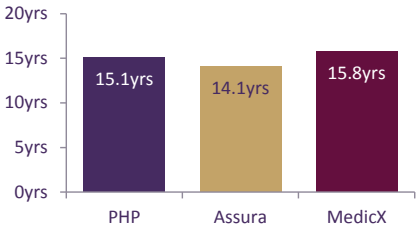
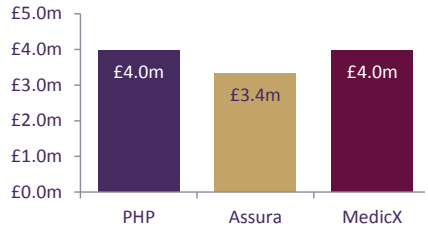


Chart 9: Average lot size

Source: Company accounts, Peel Hunt estimates



MedicX is more London and South East focussed

- Geographically, all four companies are spread across the UK, although MedicX is more concentrated on London and the South East. Given the covenant and lease length, almost all of the value is within the lease, but MedicX believes London/SE assets offer better long-term rental growth, given the land cost and therefore higher rents needed to justify new development.

Chart 10: PHP geographies

Source: Company accounts, Peel Hunt estimates

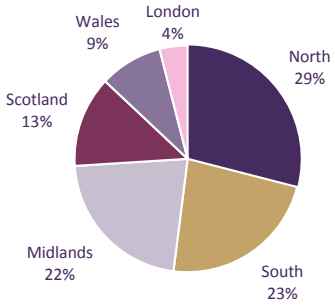


Chart 11: Assura geographies

Source: Company accounts, Peel Hunt estimates

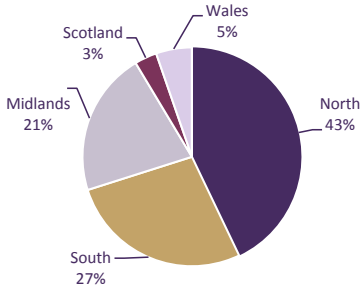
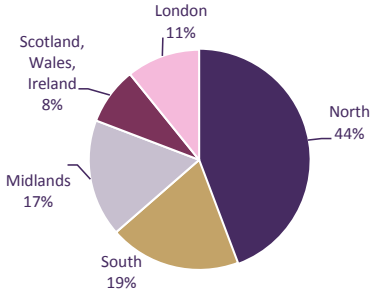


Chart 12: MedicX geographies

Source: Company accounts, Peel Hunt estimates



- PHP, Assura and MedicX have very similar property yields. The net initial yields of the three are within 7bps of one another at 5.39%, 5.42% and 5.46% respectively while PHP and Assura's equivalent yields are almost identical (5.61% and 5.60%). MedicX does not report an equivalent yield.

Conclusion – PHP and MedicX are (very) marginal winners, with slightly longer leases and larger lot sizes. Interestingly, MedicX's yield is the highest despite being more London/SE located and having the longest leases. We would not be surprised to see MedicX marginally outperform in the short term.

Outlook for rental growth

For all three companies, the leases are split between:

Open market rent reviews – around 75-80% of leases
- The rent review is typically a three-year cycle that can be instigated only by the landlord – this makes the leases effectively upward-only.
- The rent is effectively negotiated between the landlord and the district valuer.
- New developments and other rent reviews in a particular geographic region are typically the evidence used to back a particular rental tone.
- Therefore, historically rents have broadly tracked the construction cost index.

RPI leases – around 15-20% of leases
- Typically cap and collared.

Fixed rental uplifts – around 5% of leases
- Fixed annual uplifts

Given the change of government since 2010 and the substantial changes within the NHS, there has been a material slowdown in new development activity since 2013. This means healthcare landlords have little evidence to justify meaningful open-market rent increases. Combined with an increased focus on public spending and the muted rental growth seen in other regional commercial property markets, this has led to a slowdown in achieved rental growth - see Charts 13 and 14 below.

Chart 13: Historical rental growth

Source: Company accounts

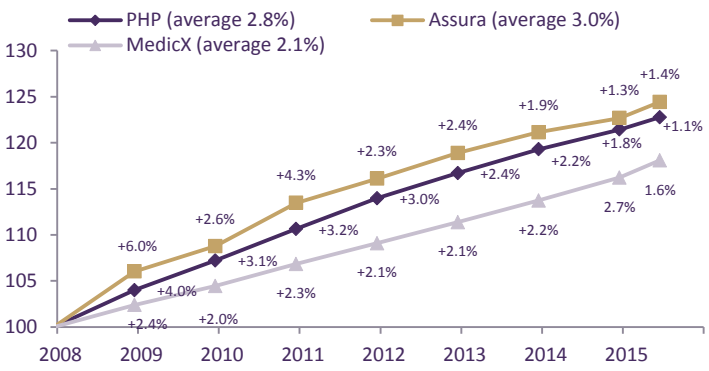
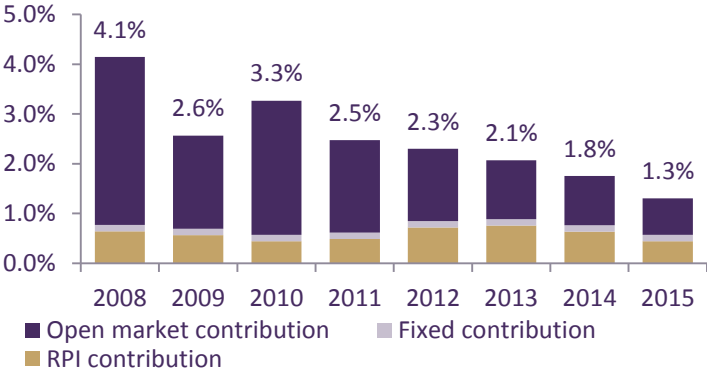


Chart 14: Average rental growth by lease type

Source: Company accounts



Rents will need to rise as developments proceeds

However, with the number of new approvals is now increasing, construction costs accelerating (Chart 16), the specification for new health care centres ever-increasing and, given the generally more buoyant regional property market, we believe the medium-term outlook for rental growth is encouraging. Assura reports that the portfolio is around 4% reversionary, but we believe this is conservative. Over the past three years alone, construction costs have increased by +10% and UK regional land prices have increased +20% (source: Savills). This will feed into development costs and therefore, eventually, into rental increases. MedicX's fund manager recently reported that it was having to renegotiate some previously agreed development agreements as inflation costs have made the developments unviable. As these new developments commence, at materially higher rents, we would expect this to feed into rental growth.

Chart 15: Breakdown of rent review

Source: Company accounts, Peel Hunt estimates

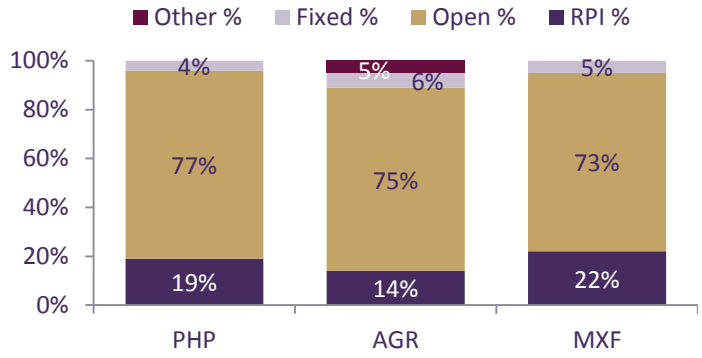
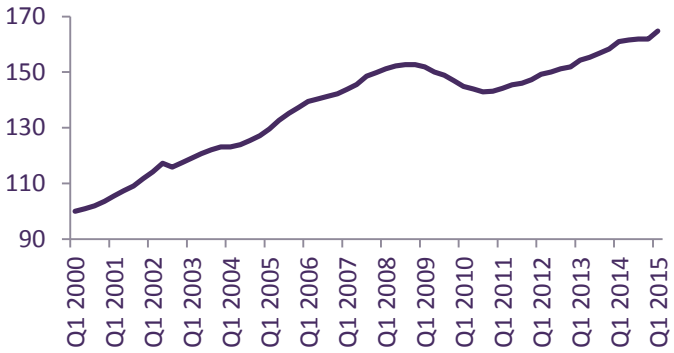


Chart 16: Construction cost index

Source: ONS, Department for Business, Innovation & Skills , Peel Hunt estimates



Of the three companies, Assura has reported the highest average rental increase since 2008, at +3.0% per annum. PHP has reported an average of +2.8% and MedicX +2.2%. MedicX appears to be catching up to some extent, with the highest growth over the past two years and Assura the weakest (Chart 13).

Conclusion

We would expect rental growth to remain relatively muted in the near term, but as development activity picks up there is a strong argument to see a material step-up in rental growth. Our forecasts for now remain relatively conservative (see page 23) given uncertainty on the timeframe. We see little evidence for a material difference between the three companies in their rental growth outlook.

Cost-base

PHP is the most efficient company

PHP and MedicX are both externally managed, while Assura is internally managed. Although external vehicles are often associated with high running costs, PHP is not only the most efficient of all three medical companies, but is the most efficient company in the UK listed real estate sector.

PHP is the most efficient company in the entire UK real estate sector

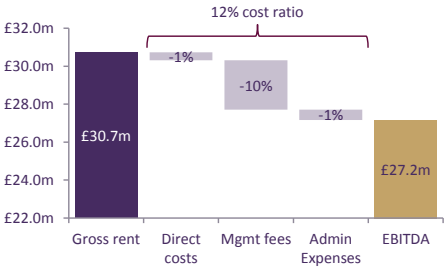
- PHP's external model has an EPRA cost ratio (effectively the EBITDA margin) of 12%, and this continues to reduce as the company expands. This is the most efficient of all UK real estate companies.
- Assura's internal model equates to a cost ratio of 19%, around one-third less efficient than PHP. Even after excluding the national insurance that was payable from the share payments made under the VCP (see page 13), Assura's cost base is still some 15% higher than PHP.

On average over our forecast horizon, MedicX is the least efficient of the three companies.

- MedicX's external model also comes out at a cost ratio of 19% (same as Assura). The company has announced a reduction in the management contract going forward and this will help improve the cost-base, but this will take some time to be implemented fully (see below).

Chart 17: PHP cost-base

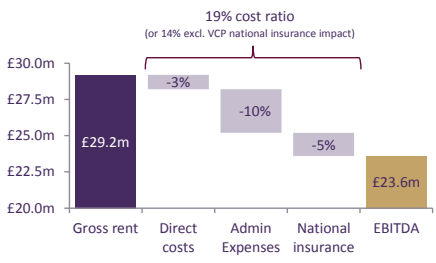
Source: Company accounts, Peel Hunt estimates



H1 to Jun '15

Chart 18: Assura cost-base

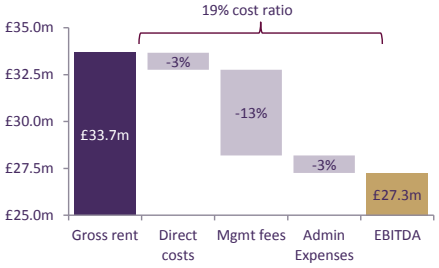
Source: Company accounts, Peel Hunt estimates



H1 to Sep '15

Chart 19: MedicX cost-base

Source: Company accounts, Peel Hunt estimates



FY to Sep '15

Why is Assura not as efficient as PHP?

One of the reasons for Assura's lower cost efficiency compared with PHP is the in-house development team, which PHP and MedicX both outsource (MedicX outsources to another company owned by the management team). Assura believes the benefits/returns from this team justify the expense although, with the current benign development environment, this will not be seen immediately.

Assura estimates that for every £100m of additional property purchased, the company will need to increase admin expenses by around £80,000.This compares with around a £330,000 increase for PHP; so as the companies expand we would expect the gap to narrow. Despite this, on our three-year forecast horizon PHP remains the most efficient of the three in each financial year.

Why is MedicX the least efficient on our forecast?

MedicX's external cost structure is the least efficient of the three vehicles over our forecast horizon:

MedicX new cost structure is still more expensive than PHP on almost every property range

- Despite a decrease in the cost structure, **MedicX's new structure is still more expensive than PHP on almost every property range** (see Table 2). Furthermore, the new fees are gradually being implemented as the company expands (see below). PHP's portfolio is almost twice the size of MedicX's and yet on our forecasts MedicX's management fees/admin expenses are just 17% lower for the year ahead in absolute terms.
- Following recent changes to MedicX's contract, the current fee payable is the ***maximum*** of the new structure or £3.9m (the amount payable under the old contract at the time of change). Therefore, the new structure will not be fully implemented until the portfolio has increased by around 40% to £782m. As this happens, the gap in cost-bases between PHP and MedicX reduces.

Table 2: Investment advisory fees

Source: Company accounts, Peel Hunt estimates

Property range (£m)	PHP	MedicX –new	MedicX –old
£0-250m	0.50%	0.50%	0.75%
£250-500m	0.48%	0.50%	0.65%
£500m-750m	0.40%	0.50%	0.50%
£750m-1,000m	0.38%	0.40%	0.40%
£1,000m – 1,250m	0.33%	0.30%	0.33%
£1,250m plus	0.30%	0.30%	0.33%

£250m for PHP, £300m for MedicX

Table 3: Other external fees

Source: Company accounts, Peel Hunt estimates

Rent roll	PHP	MXF
<£25m	£750k fixed fee	3.0%
>£25m	(£940k from May '16)	1.5%
Blended	c1.2% of rent (1.5% from May '16)	2.6%

Acquisition fee	PHP	MXF
% of purchase	n/a	1.0% on corporate purchases

Performance fees

Both PHP and MedicX have performance fees, while Assura has an LTIP agreement that is similar:

- **PHP** pays 11.25% of total accounting returns (NAV growth plus dividends) above a hurdle rate of 8%. The fee is subject to a high water-mark that PHP needs to make up before any payment is due (currently a 14% rise in NAV is needed). We do not expect a performance fee to be paid over the next couple of years.
- **MedicX** pays 15% of total shareholder returns (share price plus dividends) above a hurdle rate of 10%. In 2014 this amounted to £1.9m and, although paid in cash, the impact of the payment is excluded from adjusted profit and adjusted EPS. In 2015 no payment was made. We do not include any further payments, given our Hold recommendation on the shares.
- **Assura** pays 10% of shareholder returns (share price plus dividends) over an 8% threshold. The number of shares that can be awarded during the period (2012-2017) is capped at 25m, of which around half has been paid out and our fully diluted forecasts take into account the remaining shares that look likely to be issued.

Table 4: Performance awards/LTIPs

Source: Company accounts, Peel Hunt estimates

Company	Based off	Hurdle rate	Pay-out over hurdle	Capped	Paid in shares	Near term pay-out likely?
PHP	NAV + dividends	8%	11.25%	No	No	Unlikely
MedicX	Share price + dividends	10%	15%	No	No	Possible. Triggered if share price exceeds c90p
Assura	Share price + dividends	8%	10% Yes - 25m shares		Yes	Yes - 25m shares but accounted for

What would happen if there was an internalisation?
Although we don't see an internalisation of the management contract as likely for PHP or MedicX, the risk of a big, one-off fee is often cited by investors as a concern.

The last two major internalisations were from Redefine International (November 2013) and Hibernia (May 2015). Both payments were effectively the NPV of the future fee payment due over the length of the contract. PHP's and MedicX's contract both require two years' notice, and we calculate that this would imply a payment that would equate to a dilution to NAV of around 3% for each company. In our opinion; this would be more than offset by the presumed earnings accretion from any internalisation (which we feel investors/the boards would want to see before approving any such internalisation).

Conclusion – PHP by far the most efficient
PHP is the most efficient company of the three, and by a reasonable margin. Although Assura's internal model should lead to greater benefits of scale, it will still take a long time to become as efficient as PHP. MedicX is external and has a high cost structure (relative to PHP). We also don't view the risk of internalisation as a significant risk for either PHP or MedicX – shareholders seem unlikely to approve an internalisation that is EPS-dilutive, and the impact on NAV is unlikely to be too material.

Debt and leverage

Leverage – PHP and MedicX higher leverage will propel returns

PHP, MedicX and Assura all continue to purchase and develop/forward-fund property, and use a combination of equity and debt to fund themselves. PHP has the highest LTV of the three at 63%, while MedicX is nearer to 50% and Assura, following the recent equity issue, is at around 27% LTV (chart 23).

Assura is targeting an LTV of 40-50%; this equates to around £350m of firepower (before valuation uplifts) and will take several years to be deployed.

Assura's lower leverage gives firepower and strength, but significantly slows near-term returns

Although typically we would view LTVs above 50% as too high, given where we are in the cycle for these medical based companies, given the strong outlook for yield compression and the very stable asset class, we believe slightly higher leverage makes sense for these companies. Because of the higher leverage, PHP's and MedicX's total returns are likely to be significantly higher than Assura's in the short term – see page 25. PHP's LTV of 63% includes a £82.5m convertible bond that, at current prices, looks set to be converted (2019 maturity), and this would reduce LTV to c55%.

Type of debt – MedicX the most secure, PHP most diversified

All three companies have used Aviva/fixed-rate debt, with Assura and MedicX funding approximately two-thirds of their debt book through this type of debt. PHP has more varied financing, including a retail bond, convertible bond, fixed-rate debt and various term loans/club facilities.

On debt maturity, MedicX has the longest debt at 14 years, followed by Assura at 11 years (following recent debt repayment) and PHP at 6 years.

Chart 20: PHP debt facilities
Source: Company accounts, Peel Hunt estimates

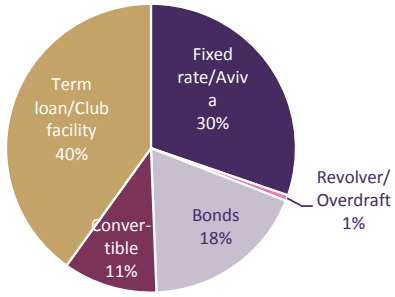


Chart 21: Assura debt facilities
Source: Company accounts, Peel Hunt estimates

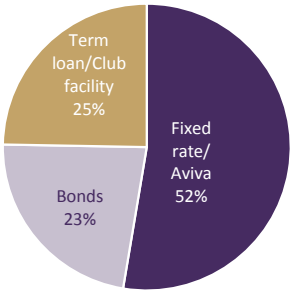


Chart 22: MedicX debt facilities
Source: Company accounts, Peel Hunt estimates

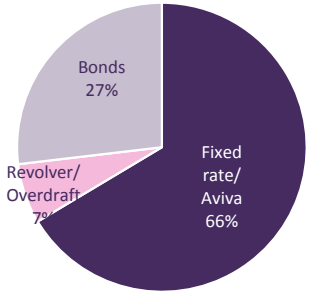


Chart 23: Net LTV and target LTV

Source: Company accounts, Peel Hunt estimates

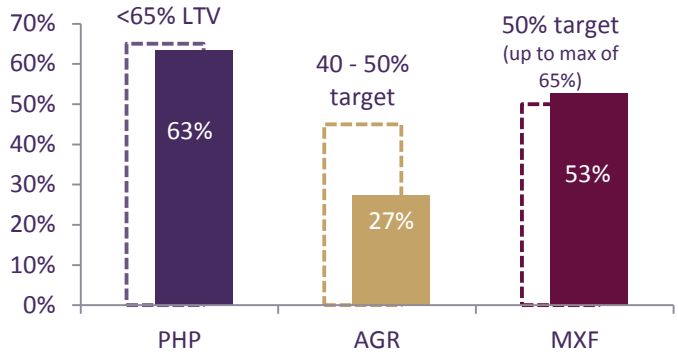
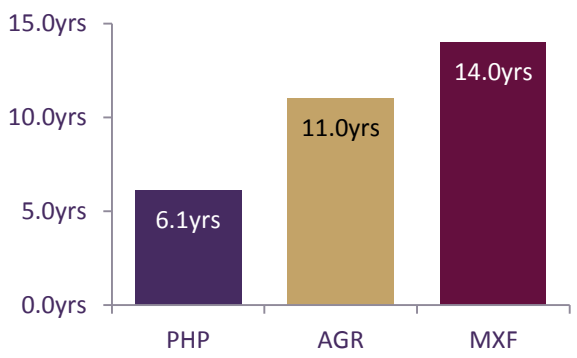


Chart 24: Debt maturity

Source: Company accounts, Peel Hunt estimates



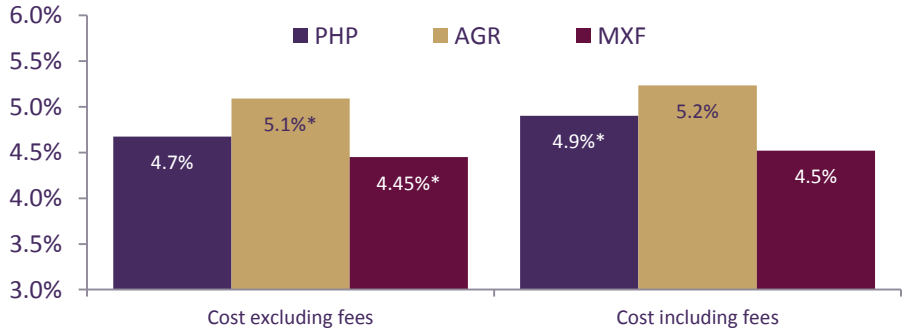
MedicX's debt is the cheapest and has the longest maturity

Cost of debt – MedicX the cheapest

Looking at the cost of debt, MedicX reports the lowest cost (4.45% versus 4.9% and 5.3% for PHP and Assura respectively) but we understand that PHP reports the cost including non-utilisation/commitment fees, while Assura and MedicX report the cost excluding these. On a LFL basis, PHP's cost is therefore around 4.7%, versus MedicX at 4.45% and Assura at 5.3%. PHP's cost will also reduce further over the next six months following the recent swap break announced at the interims.

Chart 25: Cost of debt comparison

Source: Company accounts, Peel Hunt estimates



* represents the metric reported by the company as the average cost

Balance sheet efficiency – PHP's short term debt most flexible

PHP's average debt maturity is, in part, shorter than its peers because of the use of term loans that are typically between three and five years in maturity. The advantage of such loans is the ability to repay debt in the short term and, although non-utilisation fees will be payable, this will still save finance costs. This explains why PHP has just £2m of cash on its balance sheet at its last accounts, versus Assura at £26m (rising to c£90m pro-forma for fundraise/debt repayment) and MedicX at £57m (falling to around £35m pro-forma following purchases). This flexibility effectively saves PHP finance costs, but this is not taken into account in the average cost of debt shown in Chart 25.

PHP's balance sheet is the most efficient

In order to factor this in, in Chart 27 below we show our estimate for current finance costs divided by the company's net debt (pro-forma for recent purchases/ equity issue). PHP's cost of debt on this metric looks the cheapest and the 'cash-

drag' from Assura's recent equity issue is clearly highlighted. As MedicX and Assura spend the cash, this position will clearly revert to Chart 25 above.

All three companies have a strong pipeline of purchases – MedicX reports £126m and Assura has £128m. This will utilise these cash balances and will return the companies to a much more efficient structure. PHP also has a "*strong pipeline*" and this can be funded from undrawn debt facilities.

Chart 26: Undrawn debt and cash

Source: Company accounts, Peel Hunt estimates

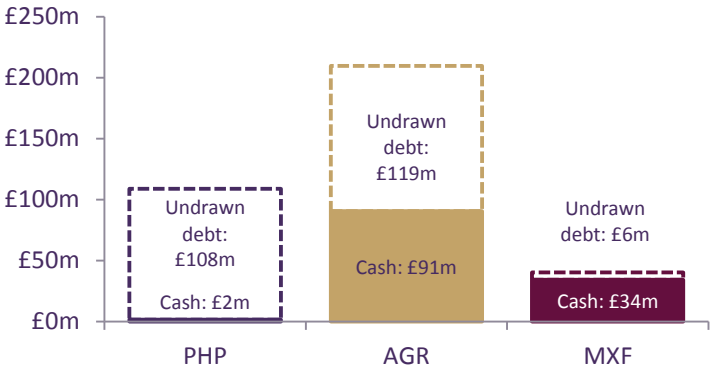
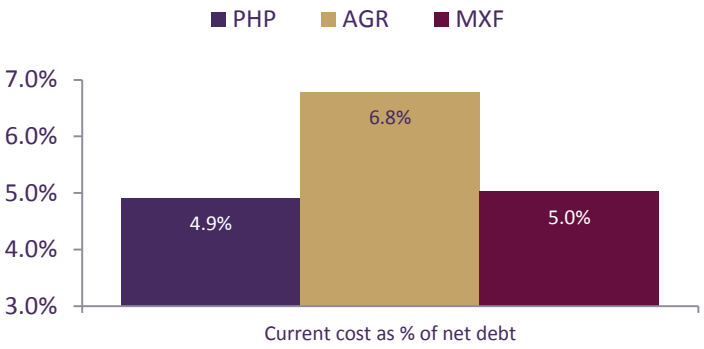


Chart 27: Cost of debt (proportion of net debt)

Source: Company accounts, Peel Hunt estimates



Capitalised interest

Like most property companies, Assura capitalises the interest expense on its developments. Over the past two years this has amounted to c£500,000 per annum (just 2% of earnings anyway).

PHP and MedicX carry out only forward funding arrangements, where typically PHP or MedicX will fund the construction of the surgery while the developer pays finance expense (normally at a rate equal to the rental yield) during the development process.

Unlike PHP, MedicX capitalises interest on forward funding

PHP does not capitalise interest on this expense, given it generates a cash return on the outlay; however, MedicX does. Over the past three years MedicX has capitalised interest of around £500,000 per annum. If this had not been capitalised, this would have reduced its earnings by around 5% during that period.

Conclusion – MedicX still the winner on debt....

Even after taking into account non-utilisation fees, PHP's cost of debt, at 4.7% (which has reduced dramatically over the past few years), is still marginally higher than that for MedicX (4.45%), which also has significantly longer maturities. Although MedicX's debt is not as flexible, we still view this as the best structure of the three companies. Assura's decision to de-lever dramatically will reduce the impact of valuation gains, but makes the balance sheet especially strong and provides ample firepower. However, Assura's 5.1% cost of debt remains relatively high and this is amplified given the cash currently on the balance sheet.

Funding future growth

Assura – £350m firepower

- Having just raised £309m of gross equity, Assura has significant resources for future purchases. We estimate the company has to purchase £350m of property in order to return LTV to the new target of 40-50% and this is before valuation increases.
- On our forecasts, LTV will be 30% in Mar 2016E, rising to 35% in Mar 2017E and 40% in Mar 2018E. Assura looks very unlikely to raise further equity in the short to medium term.

MedicX – gradual equity issuance to fund purchases

- MedicX currently has an LTV of 53%, broadly in line with its target of 50%.
- As the company continues to make purchases (it has a pipeline of around £126m) we expect a mixture of new debt and new equity to be used to fund these purchases.
- In February 2015 the company issued 32.8m shares and simultaneously bought them into treasury. MedicX will then sell the shares into the open market as and when demand is strong. We expect the company to continue this process, and within our forecasts we assume 15m of shares are issued annually, equating to around £12-13m of fresh equity.
- Combined with valuation rises, this leads to LTV being maintained in the 50-55% range over our three-year forecast horizon and provides around £50m of firepower per annum.

Ireland

- MedicX is the first of the three companies to expand into the Republic of Ireland with a €10m forward funding agreement in June 2015.

Yields in the Ireland are c200-250bps higher than in the UK

- Although no yield was disclosed, we understand that yields in Ireland are typically around 200-250bps higher than in the UK, so c7-7.5%. We also understand that both PHP and Assura are looking at Ireland and this could lead to the yield premium being partially eroded fairly quickly.
- The assets are typically majority-let to the Health Service Executive, which is the equivalent of the NHS. Leases are typically long (25 years) but, unlike in the UK, upward-only rents are not possible and therefore most leases are CPI-linked for 60-80% of the income with five-yearly rent reviews.
- Of MedicX's £126m pipeline identified, around a third (or €50m) is located in Ireland and we estimate this will increase the overall blended yield on purchases by around 50-60bps.

MedicX is targeting a 15% weighting to Ireland

- MedicX believes Ireland could eventually equate to around 15% of the company, and it intends to leverage the assets using euro-denominated debt. This will partially hedge both the P&L and balance sheet, but nonetheless the Irish assets will still be partly exposed to any depreciation in the Euro.

PHP – Valuation rises gives some headroom

- PHP's LTV currently stands at 63% and the company aims to maintain leverage below 65%. This gives headroom of around £50m if valuations are flat, or around £80m per annum if capital growth is around our 3-4% assumption.

- Were PHP to raise equity, we believe the outcome to investors would be likely to be favourable. Below we show a sensitivity of both EPS and NAV to the issue of equity. We assume issue sizes of £50m, £110m and £170m which, if used entirely to pay down debt, would equate to company LTVs of 60%, 55% and 50%. We also show scenarios in which the company re-leverages the proceeds back up to an overall 64% LTV (our Dec '16 forecast) and a scenario of half re-investment and half debt repayment.
- The tables are very much illustrative, and show the full year/annualised impact on our Dec 2016E forecasts with the following assumptions:
  - An issue price of 100p with 3% issue costs
  - A marginal cost of debt of 3.5% on new purchases and a property yield of 5.3%. Purchases are in addition to our underlying acquisition assumptions (£75m for 2016) and the table shows the impact on 2016E on a full-year, annualised basis.
  - We assume debt is repaid at 5% (marginally above the average cost) and that swap breaks are needed in order to repay this debt. The total swap liability was £35m in June 2015 and we assume this is paid out on a proportional basis (so if 10% of PHP's debt is repaid, £3.5m in swap break costs would be incurred).

An equity issue by PHP could dramatically reduce leverage without adversely impacting our forecasts

- The key outcome is that PHP can effectively de-lever considerably (down to a 50% LTV) with limited impact on EPS (as debt can be repaid) and limited impact on NAV (the premium to NAV more than offsets issue costs/swap breaks).
- We also note that the £82.5m convertible bond which matures in 2019 is currently 'in the money' and assuming this converts, LTV would be reduced by a further 7% percentage points.

Table 5: Illustrative impact on our 2016E forecasts of a PHP equity issue
Source: Peel Hunt estimates

Equity issue	£50m			£110m			£170m		
Purchases	£0m	£65m	£130m	£0m	£150m	£300m	£0m	£225m	£450m
New PHP LTV	**60%**	**62%**	**64%**	**55%**	**60%**	**64%**	**50%**	**58%**	**64%**
New EPS (p)	5.6p	5.7p	5.9p	5.5p	5.6p	6.0p	5.5p	5.6p	6.1p
% upgrade/downgrade	**-2%**	**-1%**	**+3%**	**-3%**	**-1%**	**+6%**	**-4%**	**-2%**	**+8%**
New NAV per share (p)	94p	94p	94p	93p	94p	94p	93p	95p	95p
% upgrade/downgrade	**0%**	**0%**	**0%**	**-1%**	**0%**	**0%**	**-1%**	**1%**	**1%**

Forecasts

We retain our existing forecasts for PHP for 2015E, but increase those for 2016E and 2017E. Today we also initiate coverage on MedicX and Assura Group. Below we outline our forecasts and assumptions for all three companies:

PHP

Dec 2015E forecasts – unchanged:

- We forecast full-year EPS of 4.8p following the 2.2p reported in H1, with the increase resulting from further reductions in debt cost and the impact of acquisitions/developments.
- Our full-year dividend of 5.0p follows the recent trend of c2.5% increase (or 0.5p increases prior to the share consolidation). In H2 we expect EPS of 2.6p to cover the 2.5p dividend fully, for the first time in several years.
- We forecast a full-year NAV of 87p, reflecting a +10% increase over the full year (following +6% in H1).

Dec 2016E and 2017E forecasts upgraded

- We forecast EPS of 5.7p and 6.0p respectively for 2016E and 2017E, upgrades of 3% and 5% respectively. The upgrades are driven by an increase in our acquisition assumption to £75m per annum (from £50m). On our new numbers the dividends of 5.125p and 5.25p are now covered 1.1x.

We upgrade our Dec 2016E and Dec 2017E forecasts for PHP

- We upgrade our adjusted NAV forecast to 94p (from 91p) in 2016E and 102p (from 97p) in 2017E; this reflects slightly higher yield compression following positive results/ outlooks from MedicX and Assura. We now assume 20bps of yield compression to a 5.2% net initial yield by Dec 2017 (similar to our assumptions for MedicX and Assura).

Table 6: PHP P&L forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Dec-14	Jun-15	Dec-15E	Dec-16E	Dec-17E
Net rental income	59.3	30.6	60.9	65.9	70.4
Admin/mgmt costs	-6.8	-3.4	-6.8	-7.1	-7.5
Net finance costs	-34.3	-17.3	-32.5	-33.3	-36.0
Recurring PBT	**18.2**	**9.9**	**21.6**	**25.5**	**26.9**
Adjusted EPS (p)	**4.1p**	**2.2p**	**4.8p**	**5.7p**	**6.0p**
P/E ratio (x)	*25x*	*23x*	*21x*	*18x*	*17x*
Dividend (p)	**4.875p**	**2.5p**	**5.0p**	**5.125p**	**5.25p**
Dividend yield (%)	*4.7%*		*4.8%*	*4.9%*	*5.0%*
Dividend cover (%)	*84%*	*89%*	*97%*	*112%*	*115%*

Table 7: PHP balance sheet forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Dec-14	Jun-15	Dec-15E	Dec-16E	Dec-17E
Property	1,026	1,075	1,107	1,212	1,320
Cash	12	2	6	4	3
Debt	-667	-683	-707	-777	-847
LTV	64%	63%	63%	64%	64%
EPRA NAV	**355**	**377**	**390**	**418**	**455**
EPRA NAV (p)	**80p**	**85p**	**87p**	**94p**	**102p**
Discount/premium	*31%*	*23%*	*19%*	*11%*	*2%*
NAV growth (%)	*6%*	*6%*	*10%*	*7%*	*9%*

MedicX

Sep 2016E forecasts:

- We forecast full-year EPS of 4.2p, following the 3.7p reported in FY2015, with the freezing of the cost base and acquisitions making a meaningful impact. We assume a slightly higher acquisition yield for MedicX, given its pipeline in Ireland where yields are typically higher (see page 18).
- Our full-year dividend forecast of 5.95p shows slightly lower dividend growth than historically, reflecting management's recent comments at the analyst meeting. On our forecasts, this equates to dividend cover of 71% (from 53% in FY2015) and, although we expect this to continue to improve, management is clear that it is happy to run a partially uncovered dividend, despite the inefficiencies associated with doing so (tax/equity raising fees).
- We assume MedicX continues its strategy of gradually selling equity out of treasury, and that around 15m shares are issued/sold per annum.
- We forecast a full-year NAV of 74p, a 4% rise over FY2015, with valuation rises being partly offset by the uncovered dividend.

Sep 2017E and Sep 2018E forecasts

- We forecast EPS of 4.7p and 4.9p in FY2017E and FY2018E, respectively; this includes £50m of acquisitions in 2017 and a further £50m in 2018.
- FY2017E and FY2018E dividends of 6.0p and 6.05p are covered 0.8x by earnings.
- We forecast adjusted NAV of 77p and 80p respectively in FY2017 and FY2018. As with PHP and Assura, we forecast a net initial yield of 5.2% by the end of our forecast horizon, but as a result of MedicX's (marginally) higher starting yield, this equates to slightly higher yield compression of 26bps over the next three years.

Table 8: MedicX P&L forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Net rental income	28.8	32.8	36.4	39.8	43.1
Admin/mgmt costs	-5.2	-5.5	-5.8	-5.8	-5.9
Net finance costs	-12.9	-13.7	-14.8	-15.6	-17.3
Recurring PBT	**10.7**	**13.5**	**15.8**	**18.4**	**19.9**
Adjusted EPS (p)	**3.1p**	**3.7p**	**4.2p**	**4.7p**	**4.9p**
P/E ratio (x)	*27x*	*22x*	*20x*	*18x*	*17x*
Dividend (p)	**5.80p**	**5.90p**	**5.95p**	**6.00p**	**6.05p**
Dividend yield (%)	*6.9%*	*7.0%*	*7.1%*	*7.2%*	*7.2%*
Dividend cover (%)	*53%*	*63%*	*68%*	*78%*	*80%*

Table 9: MedicX balance sheet forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Property	503	553	621	687	753
Cash	31	57	12	5	4
Debt	-286	-338	-338	-373	-413
LTV	51%	51%	52%	54%	54%
EPRA NAV (£m)	**233**	**258**	**281**	**306**	**330**
EPRA NAV (p)	**66p**	**71p**	**74p**	**77p**	**80p**
Discount/premium	*27%*	*18%*	*13%*	*8%*	*4%*
NAV growth (%)	*3%*	*8%*	*5%*	*4%*	*4%*

Assura

Mar 2016E forecasts:

- We forecast full-year EPS of 2.1p, following 2.0p the previous year (and 1.1p in H1 FY2015). This takes into account the recent £309m equity issue, which was partly used to break swaps/repay debt and partly to fund new acquisitions. Assura has a £126m pipeline, and we assume around half of this completes this year, in addition to the c£50m of purchases already announced by the company.
- Our full-year dividend forecast of 2.1p reflects the increased quarterly dividend of 0.55p from Jan 2015 and cover of 1.0x for this year.
- We forecast a full year NAV of 46p; this includes the accretion from the recent equity issue and valuation rises, partly offset by the £35m of swap breakage costs incurred in the recent debt repayment.

Mar 2017E and Mar 2018E forecasts

- We forecast Mar 2017E and Mar 2018E EPS of 2.4p and 2.5p respectively. These forecasts include £100m of acquisitions both next year and the year after. This is a significantly higher acquisition rate than its peers (see chart 28, page 23).
- Following these purchases and valuation rises, LTV will rise to c40%; this is still at the lower end of management's 40-50% LTV target range. Were these acquisition targets not met, we would expect to downgrade our EPS forecasts, particularly in the later years.
- Our Mar 2017 and Mar 2018 dividends of 2.2p and 2.3p are covered 1.1x each year.
- We forecast adjusted NAV of 48p and 50p in Mar 2017E and Mar 2018E respectively. This reflects lower NAV growth than at PHP, despite similar yield compression assumptions, because of the significantly lower leverage.

Table 10: Assura P&L forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Mar-15	Sep-15	Mar-16	Mar-17	Mar-18
Net rental income	48.2	28.1	57.5	65.4	72.0
Admin/mgmt costs	-5.7	-3.0	-6.0	-6.2	-6.4
Net finance costs	-26.6	-13.8	-23.8	-20.4	-23.8
Recurring PBT	**15.9**	**11.3**	**27.7**	**38.8**	**41.7**
Adjusted EPS (p)	**2.0p**	**1.1p**	**2.1p**	**2.4p**	**2.5p**
P/E ratio (x)	*27x*	*25x*	*26x*	*23x*	*22x*
Dividend (p)	**1.85p**	**1.0**	**2.1p**	**2.2p**	**2.3p**
Dividend yield (%)	*3.4%*		*3.8%*	*4.0%*	*4.2%*
Dividend cover (x)	*110%*		*100%*	*107%*	*110%*

Table 11: Assura balance sheet forecasts

Source: Company accounts, Peel Hunt estimates

(£m)	Mar-15	Sep-15	Mar-16	Mar-17	Mar-18
Property	925	1025	1114	1263	1416
Cash	67	26	48	26	5
Debt	-514	-544	-379	-474	-569
LTV	48%	51%	30%	35%	40%
EPRA NAV	**452**	**476**	**758**	**790**	**826**
EPRA NAV (p)	**44p**	**46p**	**46p**	**48p**	**50p**
Discount/premium	*25%*	*18%*	*19%*	*14%*	*9%*
NAV growth (%)	*2%*	*5%*	*5%*	*4%*	*5%*

Assumption comparisons

Our forecasts for each company are based upon similar assumptions in terms of rental growth and capital uplifts, given the similarity between the property portfolios. The main differences in our forecasts arise from:

- **Differing leverage.** PHP's higher LTV of 63% means that valuation uplifts have a more meaningful impact on NAV, and therefore PHP has the highest NAV growth and total return of the three companies.
- **Acquisition assumptions.** At the recent fund raise, Assura stated that it has a pipeline of £126m of purchases and it also aims to return to an LTV of 40-50%; this implies further purchases of c£100-125m per annum. We therefore assume significantly higher acquisitions for Assura compared with PHP (£75m per annum) and MedicX (£50m per annum), and this could lead to either:
  - Subsequent downgrades to our EPS forecasts of up to 10% for Assura if these purchases do not materialise.
  - Subsequent upgrades for MedicX/PHP if they can match Assura's proposed acquisition rate.

Chart 28: Acquisition assumptions

Source: Peel Hunt estimates

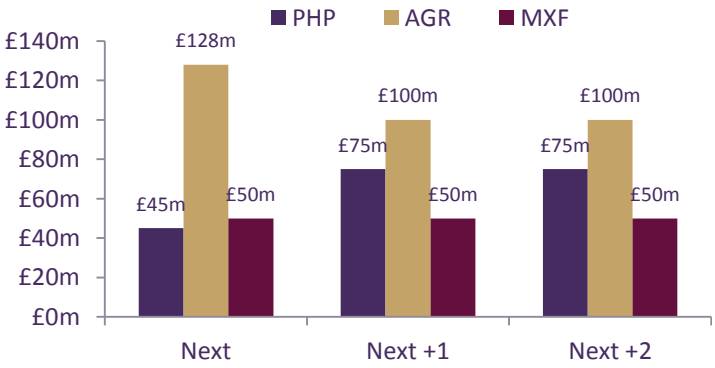


Chart 29: LFL growth in the rent roll

Source: Peel Hunt estimates

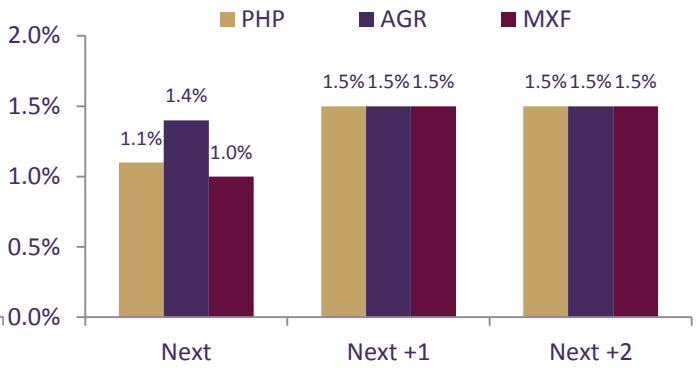


Chart 30: Capital growth assumptions

Source: Peel Hunt estimates

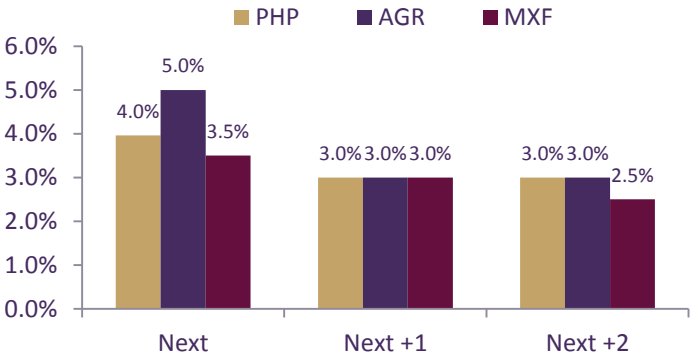
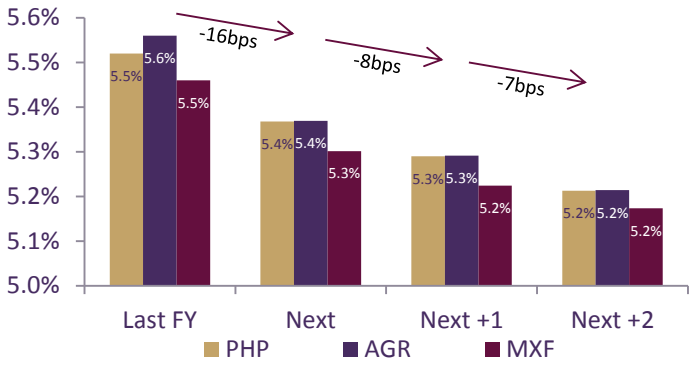


Chart 31: Forecast net initial yields

Source: Peel Hunt estimates



Valuations

It's all about the earnings

PHP, Assura and MedicX all trade on substantial premiums of around 10-20% to their NAVs, as investors increasingly look at the income/dividend characteristics rather than the NAV (similar to Big Yellow, Safestore, Redefine, etc). Even on these premiums, the dividend and earnings offered to investors make them attractive investments, and we therefore believe the most useful metrics for valuing all three companies are earnings-based.

Assura is 20-25% more expensive than its peers on a P/E basis

Assura 20-25% more expensive on P/E basis

On a simple P/E basis, PHP and MedicX trade 20-25% cheaper than Assura. PHP and Assura are both on a c20x P/E ratio versus 26x for Assura for the next year. We also predict slower EPS growth for Assura (+8% CAGR) compared with MedicX (+9%) and PHP (+14%), this is due to Assura's recent £300m fund raise which will require considerable time to become fully invested. PHP's growth rate is faster than MedicX, in part because of the full-year impact of various debt refinancing/swap breaks that have taken place over the past 12 months.

PHP has the fastest earnings growth, at 14% per annum

Chart 32: P/E ratios – Assura 20-25% more expensive
Source: Peel Hunt estimates

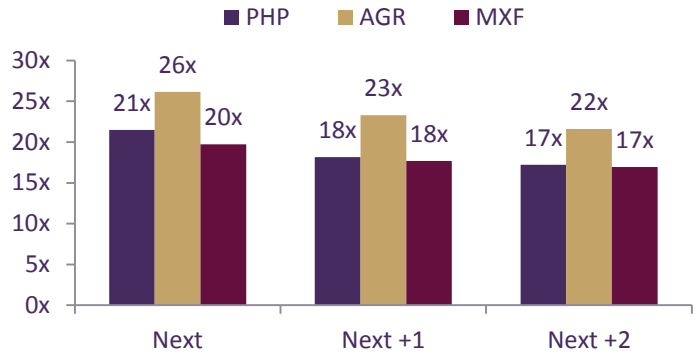
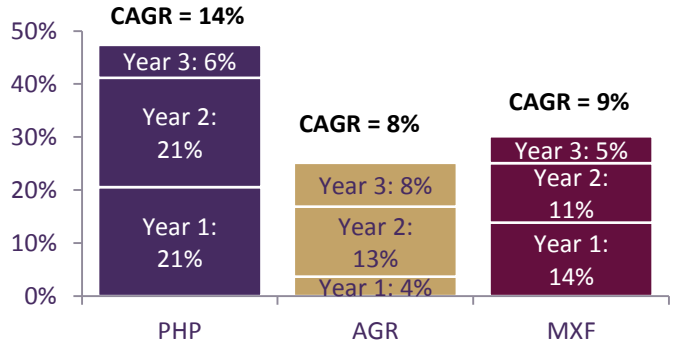


Chart 33: Three-year EPS compound growth
Source: Peel Hunt estimates



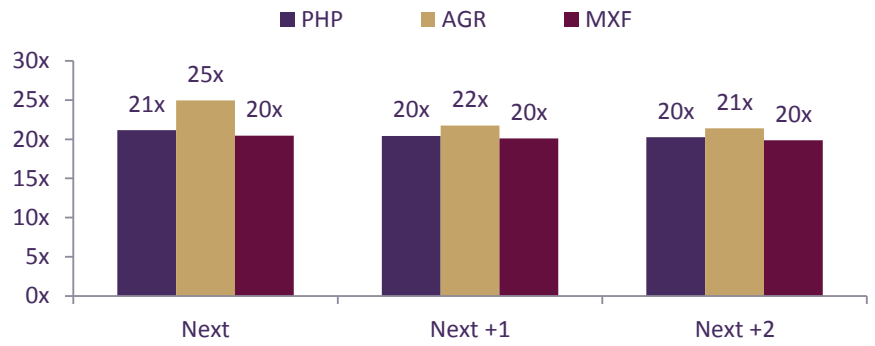
Even after excluding the impact of leverage, Assura still looks more expensive

EV/EBIT ratio – Assura still more expensive

An alternate way of valuing the three companies is to use EBIT/EV, which therefore excludes the impact of higher leverage. However, it also excludes the advantages of having a lower debt cost and is therefore unfavourable to MedicX (and to a lesser extent PHP). We take into account the current share price premiums by calculating EV as the market cap plus net debt and on this metric, PHP and MedicX are still around 20% cheaper than Assura for the current financial year. This reduces over time (in part due to Assura's internal mode/economies of scale) but even in our third-year forecast, PHP and MedicX are still around 5-10% cheaper than Assura (Chart 34).

Chart 34: EV/EBIT - Assura still looks more expensive

Source: Peel Hunt estimates



PHP's higher leverage helps reduce its NAV premium the quickest

NAV premium and total returns

Although we believe investors should put a greater focus on earnings for these companies, compared with the rest of the UK-listed sector, below we show the NAV premium/discounts over the next three years.

PHP's premium reduces the fastest of the three companies because of the higher leverage, which magnifies the impact of yield compression (versus Assura especially) and because of the fully covered dividend (versus MedicX).

For all companies in our coverage we use the EPRA or adjusted NAV in calculating premium/discounts; this excludes the impact of interest rate derivative liabilities (and also deferred tax). We do this because:

a) We expect most of our research coverage not to break significant interest rate derivatives, given very few of the companies are selling significant amount of property.

b) In our opinion, the impact of higher debt/swap rates is already accounted for in our P&L/EPS forecasts. By fair-valuing the debt/derivatives and including this in the balance sheet, we believe this is double-counting to advantage/disadvantage.

Finally, we show total returns in Chart 36. PHP has the highest total returns, while Assura has the lowest total returns, largely reflecting the leverage.

Chart 35: NAV premium

Source: Peel Hunt estimates

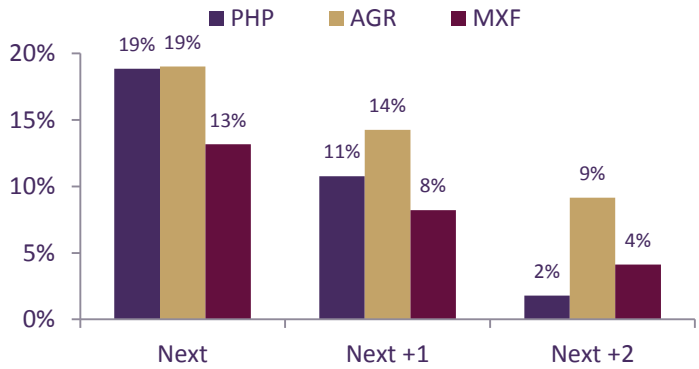
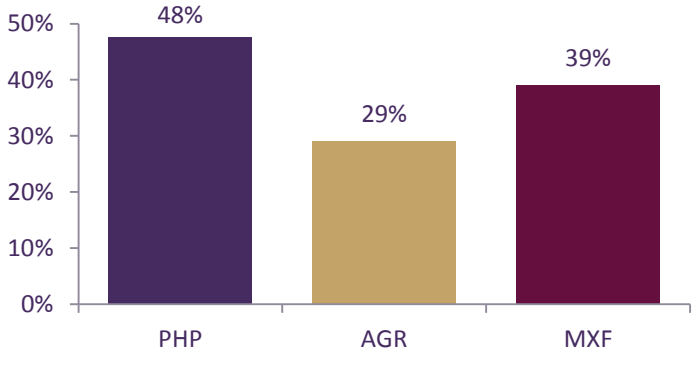


Chart 36: Three-year total returns

Source: Peel Hunt estimates



Conclusion – PHP looks the best value

- Assura looks, on most metrics, to be between 10% and 25% more expensive than PHP and MedicX, despite having lower returns and lower EPS growth.
- Assura's internal model is preferred by most investors but, as shown on page 12, PHP has a significantly more efficient cost-base and we see limited downside of any potential internalisation (page 14).
- While some investors prefer Assura's lower leverage compared with PHP, we show on page 19 how PHP could de-lever without adversely impacting our forecasts/its valuation. The convertible bond would also reduce the headline LTV from 63% to c55% if it were to convert (which looks fairly likely) and in the short term, the higher LTV will help propel returns.
- PHP is similarly priced to MedicX but, given the higher earnings growth, greater total returns, more efficient cost-base and the covered dividend, we believe PHP offers a much stronger investment case.

Management team/track-record

Primary Health Properties

- PHP is managed through an external contract with Nexus. The fee structure is simple and efficient, and shareholders benefit with economies of scale because of the reducing fee structure.
- Nexus is aligned with shareholders through a performance fee that is based on NAV and dividends (although this is below a high watermark currently) and through shareholdings. The management company owns 16m shares worth £16.6m and Harry Hyman owns a further 2.6m shares worth £2.7m.
- Neither PHP nor Nexus carry out any development, either inside (like Assura) or outside the listed vehicle (like MedicX). PHP is the only healthcare property business that Nexus runs.
- PHP is run by Harry Hyman (Managing Director) who founded Nexus and PHP. Phil Holland joined in 2010 and is FD and Deputy MD.

Assura

- Assura is internally managed and the directors are remunerated on a basic salary, an annual bonus and a LTIP (called VCP) which is based off total returns to shareholders (share price plus dividends).
- CE Graham Roberts owns 6.5m shares, worth £3.6m, and the FD Jonathan Murphy, following a recent sale of 1.1m shares, now owns 0.9m, worth around £0.5m. The VCP has a further 25m shares, and this would dramatically increase management's stake in the business.
- Graham Roberts and Jonathan Murphy both joined Assura in 2012 and have since focused the business on the development and management of health surgeries. The team has also expanded the property portfolio and reduced LTV through equity issues.

MedicX

- MedicX is managed externally like PHP, but the fee structure is more complex and is higher than PHP's (even after the recent changes).
- MedicX is managed by Octopus Healthcare, which manages over £1bn in healthcare assets – GP surgeries (through MedicX) plus care homes, retirement housing and private hospitals.
- MedicX's management company carries out developments but, unlike Assura, these activities are completed outside the listed vehicle. Octopus Healthcare carries out the developments, takes the development profit and then sells the completed properties to MedicX fund. Although this creates a potential conflict, the valuation of the assets is fairly transparent/simple and the board is 100% independent of the advisor.
- The investment advisor is run by Mike Adams (CEO), who joined in 2005.
- The company has paid rising dividends since its inception in 2006.

Share price performance

- Over the long term, PHP and MedicX have both significantly outperformed Assura, reflecting their focus on primary healthcare.
- Following the new management team at Assura and the restructuring of the company back to a focus on primary healthcare, Assura has outperformed PHP and MedicX, making up some of the lost ground.

Chart 37: Long term track-record (nine years)

Source: Datastream

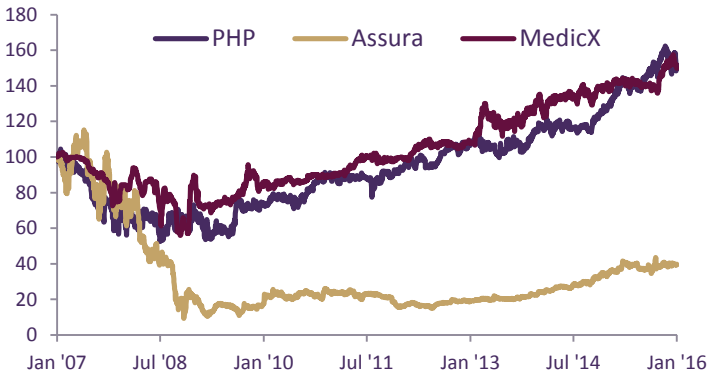
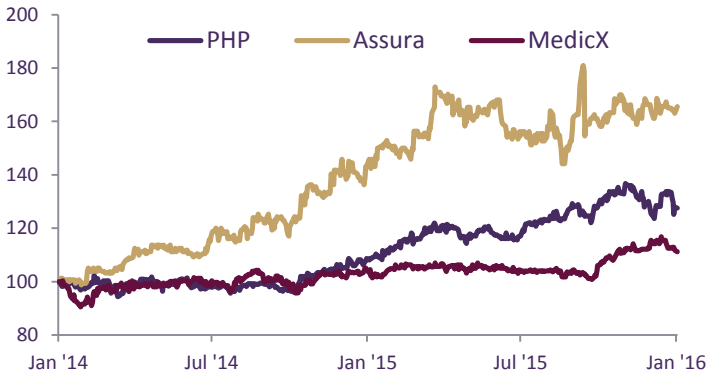


Chart 38: Near term track-record (two years)

Source: Datastream



Financial Statements
PHP

Table 12: PHP financial statements

Source: Company accounts, Peel Hunt estimates

Y/end December	2013	2014	H1 2015	2015E	2016E	2017E
Per share data (p)						
NNNAV	68	69	75	77	85	93
Adjusted NAV	**75**	**80**	**85**	**87**	**94**	**102**
Basic EPS	5.7	8.3	7.3	12.8	12.5	13.5
Adjusted EPS	**2.7**	**4.1**	**2.2**	**4.8**	**5.7**	**6.0**
Dividend	**4.8**	**4.9**	**2.5**	**5.0**	**5.125**	**5.25**
Number of shares (m)	442	445	446	445	445	445
Key ratios (%)						
NNNAV discount	*52%*	*50%*	*39%*	*35%*	*23%*	*12%*
Adjusted NAV discount	***39%***	***31%***	***23%***	***19%***	***11%***	***2%***
P/E ratio (x)	***39x***	***25x***	***23x***	***21x***	***18x***	***17x***
Dividend yield	***4.6%***	***4.7%***	***4.8%***	***4.8%***	***4.9%***	***5.0%***
LTV	***62%***	***64%***	***63%***	***63%***	***64%***	***64%***
Interest cover (x)	*1.3x*	*1.5x*	*1.5x*	*1.6x*	*1.7x*	*1.7x*
Dividend cover (x)	*0.6x*	*0.8x*	*0.9x*	*1.0x*	*1.1x*	*1.2x*
Income statement (£m)						
Net rental income	41.6	59.3	30.6	60.9	65.9	70.4
Admin/mgmt costs	(6.1)	(6.8)	(3.4)	(6.8)	(7.1)	(7.5)
Recurring EBITDA	**35.5**	**52.5**	**27.2**	**54.1**	**58.8**	**62.9**
Finance income	0.4	1.0	0.5	1.0	1.0	1.0
Finance expense	(26.5)	(35.3)	(17.8)	(33.5)	(34.3)	(37.0)
Recurring pre tax profits	**9.5**	**18.2**	**9.9**	**21.6**	**25.5**	**26.9**
Exceptional items	8.4	(10.5)	(1.3)	-	-	-
Revaluation gain/(loss) on property	2.3	29.2	23.9	35.6	30.2	33.4
Tax	-	-	-	-	-	-
Net profit	**20.2**	**36.9**	**32.4**	**57.2**	**55.7**	**60.3**
Balance sheet (£m)						
Investment properties	942	1,026	1,075	1,107	1,212	1,320
Cash	9.3	12.1	1.5	6.4	4.1	2.6
Total assets	**956**	**1,044**	**1,081**	**1,119**	**1,222**	**1,329**
Total debt	(596)	(667)	(683)	(707)	(777)	(847)
Total liabilities	**(654)**	**(735)**	**(747)**	**(775)**	**(845)**	**(915)**
Shareholders equity	302	309	334	344	377	414
EPRA NAV	**331**	**355**	**377**	**390**	**418**	**455**

MedicX

Table 13: MedicX financial statements

Source: Company accounts, Peel Hunt estimates

Y/end September	2014	2015	2016E	2017E	2018E
Per share data (p)					
NNNAV	65	70	72	75	78
Adjusted NAV	**66**	**71**	**74**	**77**	**80**
Basic EPS	5.9	9.9	8.3	8.5	8.2
Adjusted EPS	**3.1**	**3.7**	**4.2**	**4.7**	**4.9**
Dividend	**5.8**	**5.9**	**6.0**	**6.0**	**6.1**
Number of shares (m)	354	365	380	395	410
Key ratios (%)					
NNNAV discount	*29%*	*20%*	*16%*	*11%*	*8%*
Adjusted NAV discount	***27%***	***18%***	***13%***	***8%***	***4%***
P/E ratio (x)	***27x***	***22x***	***20x***	***18x***	***17x***
Dividend yield	***6.9%***	***7.0%***	***7.1%***	***7.2%***	***7.2%***
LTV	***51%***	***51%***	***52%***	***54%***	***54%***
Interest cover (x)	*1.7x*	*1.9x*	*2.0x*	*2.1x*	*2.1x*
Dividend cover (x)	*0.5x*	*0.6x*	*0.7x*	*0.8x*	*0.8x*
Income statement (£m)					
Net rental income	28.8	32.8	36.4	39.8	43.1
Admin/mgmt costs	(5.2)	(5.5)	(5.8)	(5.8)	(5.9)
Recurring EBITDA	**23.6**	**27.3**	**30.7**	**34.0**	**37.2**
Finance income	0.4	0.1	0.2	0.2	0.2
Finance expense	(13.3)	(13.8)	(15.1)	(15.8)	(17.5)
Recurring pre tax profits	**10.7**	**13.5**	**15.8**	**18.4**	**19.9**
Exceptional items	(1.9)	-	-	-	-
Revaluation gain/(loss) on property	11.6	25.6	17.4	16.6	15.2
Tax	(0.3)	(3.3)	(2.2)	(2.1)	(2.0)
Net profit	**20.2**	**35.8**	**31.0**	**32.9**	**33.1**
Balance sheet (£m)					
Investment properties	503	553	621	687	753
Cash	31.1	56.9	12.4	5.2	4.2
Total assets	**542**	**617**	**640**	**699**	**764**
Total debt	(286)	(338)	(338)	(373)	(413)
Total liabilities	**(312)**	**(363)**	**(365)**	**(402)**	**(444)**
Shareholders' equity	231	254	275	297	319
EPRA NAV	**233**	**258**	**281**	**306**	**330**

Assura

Table 14: Assura financial statements

Source: Company accounts, Peel Hunt estimates

Y/end March	2014	2015	H1 2016	2016E	2017E	2018E
Per share data (p)						
NNNAV	43	44	46	46	48	50
Adjusted NAV	**43**	**44**	**46**	**46**	**48**	**50**
Basic EPS	4.5	4.9	3.4	2.5	4.1	4.6
Adjusted EPS	**2.1**	**2.0**	**1.1**	**2.1**	**2.4**	**2.5**
Dividend	**1.4**	**1.9**	**1.0**	**2.1**	**2.2**	**2.3**
Number of shares (m)	530	1,028	1,027	1,645	1,645	1,645
Key ratios (%)						
NNNAV discount	*28%*	*24%*	*18%*	*19%*	*14%*	*9%*
Adjusted NAV discount	***26%***	***24%***	***18%***	***19%***	***14%***	***9%***
P/E ratio (x)	***27x***	***27x***	***50x***	***26x***	***23x***	***22x***
Dividend yield	***2.5%***	***3.4%***	***3.7%***	***3.8%***	***4.0%***	***4.2%***
LTV	***63%***	***48%***	***51%***	***30%***	***35%***	***40%***
Interest cover (x)	*1.4x*	*1.6x*	*1.8x*	*2.1x*	*2.8x*	*2.7x*
Dividend cover (x)	*1.5x*	*1.1x*	*1.1x*	*1.0x*	*1.1x*	*1.1x*
Income statement (£m)						
Net rental income	37.8	48.2	28.1	57.5	65.4	72.0
Admin/mgmt costs	(5.0)	(5.7)	(3.0)	(6.0)	(6.2)	(6.4)
Recurring EBITDA	**32.8**	**42.5**	**25.1**	**51.5**	**59.2**	**65.5**
Finance income	0.3	0.4	0.1	0.3	0.3	0.3
Finance expense	(22.2)	(27.0)	(13.9)	(24.1)	(20.7)	(24.1)
Recurring pre tax profits	**10.9**	**15.9**	**11.3**	**27.7**	**38.8**	**41.7**
Exceptional items	0.9	(0.7)	(1.6)	(35.6)	-	-
Revaluation gain/(loss) on property	12.4	21.4	25.7	41.1	28.8	32.7
Tax	(0.4)	0.6	(0.2)	-	-	-
Net profit	**23.8**	**37.2**	**35.2**	**33.3**	**67.6**	**74.4**
Balance sheet (£m)						
Investment properties	657	925	1,025	1,114	1,263	1,416
Cash	39	67	26	48	26	5
Total assets	**714**	**1,007**	**1,064**	**1,178**	**1,304**	**1,436**
Total debt	(450)	(514)	(544)	(379)	(474)	(569)
Total liabilities	**(487)**	**(555)**	**(588)**	**(420)**	**(515)**	**(610)**
Shareholders' equity	227	452	477	757	789	826
EPRA NAV	**230**	**452**	**476**	**758**	**790**	**826**

Recommendation structure and distribution

Recommendation distribution at 13 January 2016

	Corporate No	Corporate %	Total No	Total %
Buy	76	80%	163	55%
Add	9	9%	35	12%
Hold	8	8%	84	28%
Reduce	1	1%	6	2%
Sell	0	0%	7	2%
Under Review	1	1%	2	1%

Until 7 September 2015, Peel Hunt's Recommendation Structure was as follows:	Since 7 September 2015, Peel Hunt's Recommendation Structure is as follows:
Buy, > +10% expected absolute price performance over 12 months	Buy, > +15% expected absolute price performance over 12 months
Hold, +/-10% range expected absolute price performance over 12 months	Add, +5-15% range expected absolute price performance over 12 months
Sell, > -10% 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

Peel Hunt...

	Shareholding (%) held by			during the last 12 months		
Company	Analyst	Company in PH (>3%)	PH in Company (>3%)	makes a market in this company	is broker to this company	has received compensation from this company for the provision of investment banking services	has acted as a sponsor/broker/NOMAD/ financial advisor for an offer of securities from this company
Assura				x			
MedicX Fund				x			
Primary Health Properties				x	x	x	

Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Assura	This note is initiation of coverage							
MedicX Fund	This note is initiation of coverage							
Primary Health Properties	13 Jun 13	Buy						