

Buy

27 July 2016

DATA

Price (close 25/7)	110p
Target price	125p
Market cap	£655m
Jun '16 NAV	90p
Index	FTSE SmallCap
Sector	Real Estate

STATS (POST CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2015A	2016E	2017E	2018E
Net Op Inc (£m)	62.3	66.6	70.6	74.5
EPRA EPS (p)	4.9	5.2	5.5	5.8
EPS growth (%)	19.0	5.9	6.5	5.5
PER (x)	22.6	21.3	20.0	19.0
DPS (p)	5.0	5.1	5.3	5.4
Div yield (%)	4.5	4.6	4.8	4.9
EPRA NAV (p)	88	92	98	105
NAV/3net (p)	77	84	90	97
Disc/Nav (%)	25.7	20.4	13.0	5.4
Disc/3net (%)	42.5	31.5	22.8	13.8

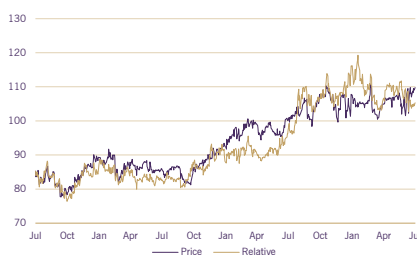
CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2016E Old	2016E New
Adj NAV (p)	93	92
Adj EPS (p)	5.2	nc
DPS (p)	5.1	nc

PERFORMANCE

Source: Bloomberg



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Primary Health Properties

PHP

Interims: In rude health

PHP's share price has barely moved since the Brexit vote, demonstrating the super-stable nature of the business with a 14 year average unexpired lease length and 91% of the income direct or indirectly funded by the UK Government. The recent £150m fund-raise reduces LTV, provides significant firepower for accretive purchases and we expect the dividend to remain fully covered throughout. The shares are still c10% cheaper than its closest peers and we retain our Buy recommendation.

Interim highlights

- EPRA Earnings +27% to £12.6m and **EPRA EPS +9% to 2.4p** – on-track for our FY estimate of 5.2p and driven by an enlarged portfolio and reduced debt costs.
- **EPRA NAV increased +3% to 90p**. H1 includes the impact of higher stamp duty, which reduced NAV growth by around 2%.
- The **valuation increased 1.9%**, with the **net initial yield compressing c10bps** to 5.2% (5.4% equivalent). We believe this looks good value versus other property yields, Gilt rates and interest rates. **No portfolio premium** is applied by the valuers but would almost certainly be achieved in the market.
- As previously announced, PHP spent £14.5m restructuring its interest rate swap portfolio, which will **save £3.4m in finance costs p.a** from Nov '16. The premium created from the £150m fund-raise offset this one-off charge.
- The company paid 2.5625p in dividends in the first half, but because of the timing of the issue (the new shares did not receive Q2 dividend) the dividend was comfortably **1.1x covered on a cash basis**. PHP "expects to maintain full cover" for the whole year and the dividend is fully covered on our forecasts.
- **LTV has reduced to 53%** (from 63%) and we estimate this will reduce to 45% assuming the £82.5m convertible bond converts.
- The EPRA cost ratio remains at 11.5%, which is the lowest in our coverage.
- Following the £150m equity issue, proceeds have been used as follows:
 - £14.5m for restructuring the swap portfolio
 - In the last couple of months, PHP has **spent £54m on new investment assets** and **£12.5m has been committed on new developments**.
 - PHP has a **strong pipeline totalling c£160m**, with half in the UK and half in the Republic of Ireland where a significant yield premium is available.
 - 28 capex projects are being advanced that would total £15.4m of capex.

Peel Hunt forecasts

- **EPRA EPS and DPS unchanged 5.2p and 5.125p, respectively for a 21x P/E ratio and 4.6% yield**. PHP is still **c10% cheaper on an P/E basis** than Assura and MedicX.

EPRA NAV reduced to 92p (from 93p) **for a 20% premium**. Our reduced growth is to be more conservative following Brexit and our new forecast requires capital growth of just over 0.5%.

Recommendation structure and distribution

Recommendation distribution at 27 July 2016

	Corporate No	Corporate %	No	%
Buy	75	83%	165	54%
Add	7	8%	44	15%
Hold	8	9%	76	25%
Reduce	0	0%	10	3%
Sell	0	0%	6	2%
Under Review	0	0%	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

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- 2 The Analyst has a shareholding in this Company
- 3 The Company holds >3% in Peel Hunt
- 4 Peel Hunt makes a market in this Company
- 5 Peel Hunt is Broker to this Company and therefore provides investment services to the Company
- 6 During the last 12 months Peel Hunt has received compensation from this company for the provision of investment banking services
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- 9 1% beneficial ownership (calculated for purposes of FINRA under Section 13(d)/(g) of the Securities Exchange Act of 1934 and IROC Rule 3400)
- 10 Peel Hunt holds a net long position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).
- 11 Peel Hunt holds a net short position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).

Recommendation history

Company	Disclosures	Date	Rec	Price	Target Price
Primary Health Properties	4,7	13 Jun 13	Buy	78p	350p

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