

## Buy

20 May 2016

### DATA

Price	106p
Target price	125p
Market cap	£629m
Index	FTSE SmallCap
Sector	Real Estate

### STATS (PRIOR TO CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2015A	2016E	2017E	2018E
Net Op Inc (£m)	62.3	63.7	69.6	75.2
Adj EPS (p)	4.9	5.2	5.5	5.8
EPS growth (%)	19.0	6.0	6.3	5.6
PER (x)	21.6	20.4	19.2	18.2
DPS (p)	5.0	5.1	5.3	5.4
Div yield (%)	4.7	4.9	5.0	5.1
Adj NAV (p)	87.7	95.4	99.1	106.0
NAV/3net (p)	77.4	87.6	91.4	98.2
Disc/Nav (%)	20.2	10.6	6.4	(0.4)
Disc/3net (%)	36.3	20.4	15.4	7.4
ROIC (%)	0.0	0.0	0.0	0.0

### CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2016E	
	Old	New
Adj NAV (p)	95	93
Adj EPS (p)	5.2	nc
DPS (p)	5.1	nc

### PERFORMANCE

Source: Bloomberg



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## Primary Health Properties<sup>#</sup>

PHP

### Trading statement: Good progress on deploying capital

Just five weeks following completion of the £150m equity issue, PHP has now spent £54m on UK purchases and this looks well on-track for our £80m full year assumption and a further £14.5m has been spent restructuring interest rate swaps which will significantly lower finance expenses for 2017 onwards (£3.4m saving per annum). The shares trade on a 20x 2016 P/E ratio which remains around 20% cheaper than Assura. Buy.

### Trading update - Two new pieces of new information:

- £54m of acquisitions** – PHP now looks well on-track for our £80m of assumed purchases for 2016. We understand the assets are all located within the UK and although no average yield is disclosed, the properties will add £3m in rent implying yields are broadly in-line with PHP's existing assets (5.3%).
- £14.5m to break interest rate swaps** – PHP is restructuring £88m of interest rate swaps between Nov '16 to Aug '21. The average rate will be reduced from 4.79% to 0.87% and this will save £3.4m per annum. The total saving will last for just under 5 years (c£16.4m in total).

The £14.5m is broadly equal to the premium generated from issuing the £150m at a premium to NAV, and therefore the restructure is neutral on the pro-forma NAV. We had assumed the c£14m charge was made in 2017 but as it has now been made in 2016, we make a small 2p reduction to our Dec '16 NAV (purely down to timing) and we retain our 2017 and 2018 NAV's.

- Other news** - PHP raised £150m of equity in Apr '16 and LTV now stands at 53% (from 63%) and a Q2 dividend of 1.28125p is declared today (in-line).

### Peel Hunt forecasts

- 2016 - Adj EPS and DPS unchanged** at 5.2p and 5.125p for 4.9% yield. **Adj NAV reduced to 93p** (from 95p) for a +12% premium
- 2017 + 2018: All unchanged** (see below).
- On valuation, **PHP still looks around 10-20% cheaper than Assura** on most metrics and remains our preferred of the three listed medical companies. [Click here for our Jan '16 long note comparing all three.](#)

### Table 1: PHP, Assura, MedicX valuations

Source: Company accounts, Peel Hunt estimates

	PHP Dec-16	Assura Mar-17	MedicX Sep-16	PHP Dec-17	Assura Mar-18	MedicX Sep-17
EPS	5.2p	2.4p	4.2p	5.5p	2.5p	4.7p
P/E Ratio	20x	24x	21x	19x	22x	18x
EBIT	£57m	£59m	£31m	£62m	£66m	£34m
EV/EBIT	19x	22x	17x	21x	22x	20x
NAV	95p	47p	74p	99p	50p	77p
Premium	9%	20%	18%	5%	15%	13%
DPS	5.1p	2.2p	6.0p	5.3p	2.3p	6.0p
Yield	4.9%	3.9%	6.8%	5.0%	4.0%	6.9%
Cover	101%	107%	71%	106%	110%	79%

## Recommendation structure and distribution

Recommendation distribution at 19 May 2016

	Corporate No	Corporate %	No	%
Buy	76	84%	164	54%
Add	8	9%	45	15%
Hold	6	7%	76	25%
Reduce	0	0%	9	3%
Sell	0	0%	6	2%
Under Review	0	0%	1	0%

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...

Company	Shareholding (%) held by			during the last 12 months			
	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
Primary Health Properties				x	x	x	x
Assura				x			
MedicX Fund				x			

## Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Primary Health Properties	13 Jun 13	Buy						
Assura	14 Jan 16	Hold						
MedicX Fund	14 Jan 16	Hold						

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