

## Buy

19 February 2015

### DATA

Price	385p
Target price	400p
Market cap	£437m
NAV	319p
Net Debt	n/a
Index	FTSE SmallCap
Sector	Real Estate

### STATS (PRIOR TO CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2014A	2015E	2016E	2017E
Net Op Inc (£m)	59.3	61.7	65.7	69.7
<b>Adj EPS (p)</b>	<b>16.4</b>	<b>18.7</b>	<b>21.8</b>	<b>25.1</b>
EPS growth (%)	54.4	13.9	16.9	15.2
PER (x)	24.0	21.0	18.0	15.6
<b>DPS (p)</b>	<b>19.5</b>	<b>20.0</b>	<b>20.5</b>	<b>21.0</b>
<b>Div yield (%)</b>	<b>5.0</b>	<b>5.2</b>	<b>5.3</b>	<b>5.5</b>
<b>Adj NAV (p)</b>	<b>319</b>	<b>330</b>	<b>346</b>	<b>365</b>
NAV/3net (p)	278	293	309	329
<b>Disc/Nav (%)</b>	<b>21</b>	<b>17</b>	<b>11</b>	<b>5</b>
Disc/3net (%)	40	32	25	18

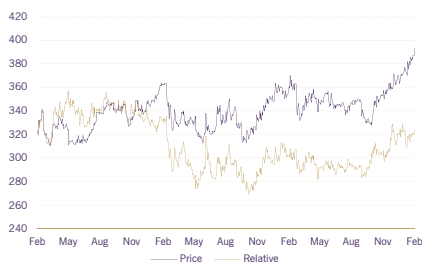
### CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2015E Old	2015E New
Adj NAV (p)	330	nc
Adj EPS (p)	18.5	18.7
DPS (p)	20.0	nc

### PERFORMANCE

Source: Bloomberg



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

PHP

### Prelims: Flying back to full dividend cover

An impressive +55% increase in underlying earnings is ahead of forecasts and propels dividend cover to 84% (from 57%). Combined with 6% NAV growth this produces a total return of 13% for 2014. The property is valued at an equivalent yield of 5.75% still looks attractive compared to other long-dated real estate and the shares yield 5.2% backed by the sector's most secure income stream. Buy.

### Prelims

- **Adj EPS increased +55% to 16.4p.** This is +4% ahead of our 15.7p forecast and increases dividend cover to 84% - a company objective has been to return to full dividend cover and PHP is well on track to achieve this.
  - The £233m PPP purchase in Dec '13 and the reduction in the long-dated debt cost was the main catalyst for today's substantial EPS increase.
  - The running costs of PHP have also been reduced and the debt margin on a £235m portion of term loans has been reduced by an average 55bps.
- The 2014 dividend of 19.5p reflects a +2.6% increase and this is the **18<sup>th</sup> successive year of dividend growth.**
- **EPRA NAV increased +6.3% to 319p** which is +1% ahead of our 316p estimate. This was driven by a **+3.2% like for like property uplift** with the equivalent yield **compressing 17bps to 5.75%** - still looks very attractive compared to other secure, long dated property (supermarkets are at 4%!).
- Seven acquisitions were made for £43m in total – this included £15m standing investments with the remaining forward funded developments.
- LTV stands at 64% and this includes the unsecured £82.5m 5-year convertible bond issued in May '14 (390p initial conversion price).

### Investment case

- PHP's has the most secure income stream in the PHP sector – over 90% of the rent is directly or indirectly funded by the NHS and the company has an average unexpired lease length of over 15 years.
- The dividend yield of 5.2% is 350bps higher than 10 year government bonds, almost 150bps higher than the average all-share dividend yield (despite the recent fall in resources shares) and also substantially higher than Assura's 3.9% consensus estimate yield for Mar '16 (1.1x covered).
- For 2012 and 2013 PHP's dividend cover was just above 50% but this is now expected to return to 93% cover next year and 106% covered in Dec '16.

### Upgraded Peel Hunt forecasts

- Dec '15 and Dec '16 EPS forecasts increased **+1% to 18.7p** (from 18.5p) and **21.8p** (from 21.5p).
- Dec '15 and Dec '16 NAV forecasts unchanged at 330p and 346p with the shares trading on **NAV premiums of +17% and +11%** respectively.
- Our 2015 and 2016 dividend forecasts remain unchanged at 20.0p and 20.5p for **yields of 5.2% and 5.3% and dividend cover of 93% and 106%.**

Recommendation structure and distribution as at 19 February 2015	Corporate No	Corporate %	No	%
Buy > +10% expected absolute price performance over 12 months	80	94	184	63
Hold +/-10% range expected absolute price performance over 12 months	5	6	98	34
Sell > -10% expected absolute price performance over 12 months	0	0	9	3

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%)	PH 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	

## Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Primary Health Properties	13 Jun 13	Buy						

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