

Primary Health Properties (PHP.L)

Full cover now in sight

HOLD

Interim results

26 August 2015

PHP's adjusted interim profits were in line with expectations, but yield shift meant that revaluation gains and hence NAV were ahead. We have revised our forecasts to reflect this, plus lower debt and admin costs from 2H15. With full dividend cover expected to be achieved on an annualised basis by y/e our DDM derived target has increased 5% to 393p. Management still appear frustrated by the slow pace of development in the sector, but encouraged that political support now seems to be in place. Given the recent strong performance and current premium to NAV we maintain our Hold rating, despite a yield of 4.9%.

- ⊙ **Results in line:** PHP's interim results were in line with full year expectations, with EPRA earnings increasing 20% to 8.9p per share on the back of a 5% rise in net rental income. A revaluation gain of £24m helped to boost EPRA NAV by 6%, which was ahead of our forecast. The interim dividend was 10p as expected, in line with our 20p forecast for the full year. Dividend cover thus increased to 89%.
- ⊙ **Revised forecasts:** We have upgraded our NAV forecasts by 6-7% for FY15-16, to take account of the yield compression and £24m revaluation gain in 1H15. EPRA EPS are also 9% higher in FY16 owing to lower finance and admin costs.
- ⊙ **Dividend cover:** Management expect the annualised cover to be 100% by year-end, adding the comment "and then we can start talking about something else". The path to 100% cover has been accelerated by admin cost savings last year and the 43bps saving from debt and swap restructuring in 1H15.
- ⊙ **Valuation upgraded with dividend cover:** The shares trade on a 16% premium to our FY15 NAV forecast, while yielding 4.9%. Using a 100% dividend cover forecast has increased our target 5% to 393p. PHP has facilities of £87m after committed capex and 25% unsecured debt, but with a net LTV of 63% the possibility of a capital raise remains, if a large enough acquisition presents itself.

Closing price	410p
Target price	393p (prev. 373p)
Market cap	£457m
Enterprise value	£1,167m
Share price as at	(25/08/15)

The largest primary care property investor in the UK.



Source: Capital IQ

Dec Year End	FY12	FY13	FY14	FY15E	FY16E
Total revenues (£m)	32.8	41.9	60.0	63.9	67.9
Net operating income (£m)	32.7	41.6	59.3	63.1	67.1
EBITDA (£m)	27.6	36.1	52.5	56.4	60.1
PBT (£m)	1.1	20.2	36.9	60.9	40.5
Reported EPS (p)	1.6	22.7	33.2	54.7	36.3
EPRA EPS (p)	8.0	7.6	16.4	19.4	21.5
DPS (p)	18.5	19.0	19.5	20.0	20.5
Net (debt)/cash (£m)	(376.5)	(587.1)	(655.2)	(711.1)	(764.7)
Net LTV (%)	60%	62%	64%	63%	64%
Reported NAVPS (p)	236	274	278	312	328
EPRA NAVPS (p)	305	300	319	353	369
P/NAV (x) (EPRA)	1.34	1.37	1.29	1.16	1.11
Dividend Yield (%)	N/A	4.6	4.8	4.9	5.0

Source: Sanlam Securities UK

Securities UK

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Interim results

- **Results in line:** PHP's interim results were in line with full year expectations, with EPRA earnings increasing 20% to £10m and 20% to 8.9p per share on the back of a 5% rise in net rental income to £31m. IFRS pre-tax profit was 47% higher at £32m, due to a revaluation gain of £24m, which helped to boost EPRA NAV by 6% to 339p, which is ahead of our forecast. The interim dividend was 10p as expected, in line with our 20p forecast for the full year. Dividend cover thus increased to 89% in 1H15 from 84% in FY15. While the dividend will now be paid quarterly and a 4 for 1 stock split is planned for October.
- **Further yield compression:** The revaluation gain was partly responsible for the 10% YoY increase in the property valuation to £1.1bn, which was reached using a net initial yield of 5.39% from 5.52% at year end. The remaining 8% of the increase was driven by the seven acquisitions in the period, although only two are income producing and the remainder in development. The group also achieved an average increase of 1.1% annualised on rent reviews completed and the portfolio is 99.6% let.
- **Further pipeline to boost dividend cover:** Management said there was a good pipeline of further acquisition at good yields. With the recent debt and swap restructuring PHP was able to reduce average debt costs by 43 basis points, in turn improving dividend cover towards 100%, which remains the main priority. The outlook statement was also positive on government support for primary care development within the NHS Five Year Forward View, although light on specifics.

Interim results (£m)

December y/e	1H14	1H15	Change
Gross rental income	29.4	31.0	5.3%
Net property expenses	(0.3)	(0.4)	41.6%
Net rental income	29.1	30.6	4.9%
Revaluation of investment properties	16.1	23.9	48.8%
Administrative expenses	(3.7)	(3.4)	-7.9%
Other income and expenses	0.0	0.0	0.0%
Non recurring expenses	(2.4)	-	N/A
Net operating profit	39.1	51.1	30.7%
Interest income	0.4	0.5	30.5%
Interest expenses	(17.6)	(17.8)	1.1%
Fair value gain on derivatives	1.1	2.3	105.1%
Loan repayment fees	(0.9)	-	N/A
Profit before taxation	22.0	32.4	47.0%
EPRA earnings	8.2	9.9	19.9%
Adjusted earnings	9.1	9.9	8.1%
Diluted earnings	22.4	34.1	52.1%
Average shares outstanding (m)	110.9	111.3	0.3%
Basic EPS (p)	19.9	29.1	46.5%
EPRA EPS (p)	7.4	8.9	19.5%
Adjusted EPS (p)	8.2	8.9	7.7%
Diluted shares	115.9	132.5	14.4%
Diluted EPS (p)	19.4	25.8	33.0%
DPS (p)	9.8	10.0	2.6%
Dividend cover	84%	88%	5.0%
Basic NAVPS (p)	281.8	300.1	6.5%
EPRA NAVPS (p)	307.8	339.0	10.1%

Source: Sanlam Securities UK



Financial summary

Dec Year End	FY12	FY13	FY14	FY15E	FY16E
P&L (£m)					
Total revenues	32.8	41.9	60.0	63.9	67.9
Net operating income	32.7	41.6	59.3	63.1	67.1
EBITDA	27.6	36.1	52.5	56.4	60.1
Revaluation gains	(1.8)	2.3	29.2	39.3	16.5
EBIT	25.9	38.5	81.7	95.7	76.5
Net interest expense	(20.2)	(26.0)	(34.3)	(34.8)	(36.1)
Fair value gains/(losses) & fees	(4.5)	10.5	(8.1)	-	-
Non recurring expenses	-	(2.7)	(2.4)	-	-
PBT	1.1	20.2	36.9	60.9	40.5
Average shares outstanding (m)	72.7	89.1	111.0	111.3	111.4
Reported EPS (p)	1.6	22.7	33.2	54.7	36.3
EPRA EPS (p)	8.0	7.6	16.4	19.4	21.5
Balance sheet (£m)					
Investment properties	622.4	941.5	1,026.2	1,120.5	1,191.9
Other non current assets	3.1	0.5	0.0	0.0	0.0
Receivables	2.9	4.8	5.7	6.0	6.4
Other current assets	25.1	9.3	12.1	11.1	12.4
Long term borrowings	321.7	592.6	666.6	721.4	776.3
Other long term liabilities	45.3	21.5	35.2	35.2	35.2
Short term borrowings	79.9	3.8	0.7	0.8	0.8
Other current liabilities	27.6	35.8	32.4	32.4	33.0
Net assets	179.1	302.4	309.1	347.8	365.4
Closing net debt	376.5	587.1	655.2	711.1	764.7
Cashflow (£m)					
Operating cash flow	35.4	36.7	49.0	56.1	60.2
Interest & tax	(10.5)	(18.4)	(24.1)	(34.8)	(36.1)
Capex / Acquisitions	(45.3)	(54.5)	(53.9)	(54.9)	(54.9)
Dividends	(12.2)	(16.1)	(20.7)	(22.3)	(22.8)
Equity	11.7	57.6	(7.7)	-	-
Net proceeds from borrowings	45.9	(21.0)	60.1	54.9	54.9
Change in cash	25.0	(15.8)	2.8	(1.0)	1.3
Closing cash	25.1	9.3	12.1	11.1	12.4
Growth rates (%)					
Revenues	8.1	26.6	42.9	6.6	6.2
EBITDA	8.6	30.8	45.2	7.4	6.5
Net Income	(91.1)	1,689.4	82.4	65.1	(33.6)
EPRA NAVPS	(4.3)	(1.8)	6.4	10.8	4.5
Operating ratios (%)					
NOI margin	98.8%	99.1%	98.8%	98.8%	98.8%
EBITDA margin	83.3%	86.1%	87.5%	88.2%	88.4%
EBIT margin	78.0%	91.6%	136.2%	149.7%	112.7%
EPRA EPS/DPS	43%	40%	84%	97%	105%
Leverage					
Net debt/equity	210%	194%	212%	204%	209%
Pre-revaluation interest cover (x)	1.3	1.4	1.5	1.6	1.7
Gross LTV (%)	64%	63%	65%	64%	65%
Net LTV (%)	60%	62%	64%	63%	64%

Source: Company data, Sanlam Securities UK





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