

Buy

27 July 2017

DATA

Price (close 25/7)	115p
Target price	125p
Market cap	£689m
NAV reported today	96p
LTV	53%
Index	FTSE SmallCap
Sector	Real Estate

STATS (POST THE UPGRADE)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2016A	2017E	2018E	2019E
Net Op Inc (£m)	66.6	70.9	74.6	77.8
Adj EPS (p)	4.8	5.3	5.7	6.0
EPS growth (%)	(2.0)	11.7	7.2	5.7
PER (x)	24x	21x	20x	19x
DPS (p)	5.1	5.3	5.4	5.5
Div yield (%)	4.5	4.6	4.7	4.8
Adj NAV (p)	91	98	104	111
NAV/3net (p)	83	90	96	103
Prem/Nav (%)	25	17	10	3
Prem/3net (%)	37	26	19	11

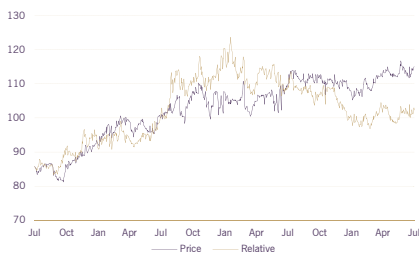
CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2017E Old	2017E New
Adj NAV (p)	97	98
Adj EPS (p)	5.3	nc
DPS (p)	5.3	nc

PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

Primary Health Properties#

PHP

Interims: Outperforming expectations on all fronts

Today's result contains better yield compression (-13bps), rental growth (+1.6%), debt cost savings (to 4.3%) and acquisitions (£54m YTD) than we believe the market would have expected. Furthermore, the outlook is for further yield compression in the near term and an improving outlook for future rental growth across 75% of the £1.3bn portfolio, which is subject to open market rent reviews. Buy for very solid and growing dividends.

Result highlights

- **EPRA NAV +5.5%** to 96.1p was solely driven by a 2.4% LFL valuation uplift of £30m/5p. Growth was primarily due to 13bps yield compression from 5.17% to a 5.04% net initial yield and a 5.23% equivalent yield, after continued investor demand for long-dated, secure income.
- **EPRA earnings +22%** to £15.4m. EPRA EPS +8.3% to 2.6p, or 2.5p including the dilutive impact of the convertible bond due May 2019.
- **H1 DPS +2.4%** to 2.62p paid in the period. Another Q3 DPS of 1.31p is payable on 25 August. This is the 21st successive year of dividend growth.
- **Income metrics:** Rental growth of 1.6% on average (annualised) on £13m of rent reviews agreed in the period, resulting in an annualised uplift of £0.4m. This is a significant improvement to the 0.9%/£0.3m growth last year. Occupancy 99.7% with a 13.3 year WAULT (Dec 2016: 13.7 years).
- **The average debt cost** has fallen from 4.65% at Dec 2016 to 4.26% following the cancellation of a swap at a cost of £6.2m. This will reduce the EPRA NAV in H2 by 1p/1%, which is reflected in our upgraded NAV forecast today.

Acquisitions

- Four properties acquired in period for £18.6m, including two forward-funded developments as previously announced. Post the period end three assets have been acquired for a total gross property valuation of £35.5m. All three are modern, purpose-built healthcare facilities that were acquired over two deals:
 - (1) Acquisition of Ettrick Health Ltd for £27.1m, a company that only owns Low Grange Health Village, Middlesbrough (17yr WAULT and 3yrly fixed rental uplifts of 3% pa), and the Evenwood Medical Centre, Bishop Auckland (13yr WAULT and 3yrly upward only RPI reviews).
 - (2) An £8.4m modern, high-quality primary care centre in Syston, Leicestershire with a 16yr WAULT.
- We await further purchases following last year's £150m equity raising, of which c£120m has been invested. We forecast a further £97m of assets to be acquired by FY19 and funded by the undrawn revolving credit facility, which should increase the LTV from 53% to 56% prior to further yield compression.

FY Dec 2017 Forecasts – NAV upgraded

- Adj NAV upgraded by 1.5% from 96.6p to 98.0p for a 17% premium. We expect the consensus NAV of 89p to be upgraded more significantly.
- Adj EPS unchanged and in line with consensus at 5.3p for a 21.5x PE.
- DPS unchanged at 5.25p for a 4.6% yield and 1.02x cover.

Recommendation structure and distribution

Recommendation distribution at 26 July 2017

	Corporate No	Corporate %	No	%
Buy	86	82	166	53
Add	6	6	59	19
Hold	3	3	66	21
Reduce	0	0	10	3
Sell	0	0	7	2
Under Review	4	4	4	1

Peel Hunt's Recommendation Structure is as follows:

Buy, > +15% expected absolute price performance over 12 months

Add, +5-15% range 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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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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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	20 May 16	Buy	104p	125p

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