

Morning Note 20 February 2014

Primary Health Properties[#] (PHP)

Buy

Data

Price	361p
Target price	390p
Market cap	£400m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2012A	2013E	2014E	2015E
Net Op Inc (£m)	32.7	40.3	61.2	63.2
Adj EPS (p)	10.2	11.5	16.1	18.4
EPS growth (%)	(30.1)	13.4	39.7	14.4
PER (x)	35.5	31.3	22.4	19.6
DPS (p)	18.5	19.0	19.5	20.0
Div yield (%)	5.1	5.3	5.4	5.5
Adj NAV (p)	305	300	307	314
NAV/3net (p)	236	252	259	267
Disc/Nav (%)	18.3	20.3	17.5	14.7
Disc/3net (%)	53.2	43.1	39.1	35.3

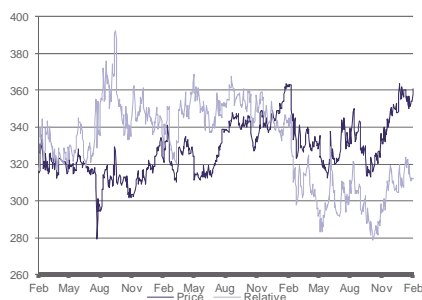
Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2014E Old	2014E New
Adj NAV (p)	307	nc
Adj EPS (p)	16.1	nc
DPS (p)	19.0	nc

Performance

Source: Bloomberg



Analysts

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Finals: primed for 2014

PHP's number one priority for 2013 was to restore the dividend cover and, after an extremely busy period including an equity issue, a bond issue, the £237m PPP acquisition and a restructuring of the management contracts, the company is well set to regain full cover. The income stream is the most secure in our coverage and PHP has increased its dividend for 17 consecutive years. Today the shares trade on a 5.4% yield, one of the highest in the sector, and we retain our Buy rating.

Highlights

- **Adj NAV** declined 1.6% in the year to **300p**, with the move split -1.2% in H1 followed by -0.3% in H2 – **in line with Peel Hunt's estimate of 300p**.
- The valuation showed a net marginal gain of +£2.3m or c0.4%, and this is after the impact of acquisition costs from the c£300m of purchases in the year.
- **Recurring PTP increased +28% to £9.5m**, but was 6% below our £10.1m forecast because of higher than expected financing costs (largely higher non-utilisation fees/charges, which are set to decrease next year).
- **Adjusted EPS increased +4% to 10.6p** (2012: 10.2p).
- Rental growth of 2.2% in the year – in line with expectations.
- Total dividend of 19.0p, representing a **5.3% yield** with **dividend cover of 56%**.
- **LTV is in line with expectations at 62%** (from 61% at Dec 2012).

Comments

- Dividend cover will improve materially over the next 12 months following:
 - **The PPP acquisition** in Dec 2013 – increases PHP's portfolio by £237m for a £43m equity outlay that is funded through new shares – **the perfect deal to restore PHP's dividend cover**.
 - Refinancing of the debt attached to PPP has started – the rate has been cut by **80bps**, back-dated to Jan 2014 and we understand it is **set to fall further**.
 - A new asset management fee with **reduced cost** above a £1bn portfolio and a new, fixed administrative charge which will **save over £800,000 pa**.
- Management reports interest in the sector from institutional buyers and, given the relatively **high equivalent yield of 5.9%**, the **long leases** (average 16yrs), **high occupancy** (100%) and **strong covenant** (over 90% income from UK government), we see potential for yield shift over the coming years. However, this is not in our base forecasts and would therefore lead to upgrades.

FY Dec 2014 forecasts unchanged:

- **Adjusted NAV unchanged at 307p**, which includes a small capital uplift driven by rental growth. The shares trade on a +18% prospective premium.
- **Adj EPS and DPS of 16.1p and 19.5p for 5.4% dividend yield and 0.8x cover**.

Recommendation structure and distribution as at 20 February 2014	Corporate No	Corporate %	No	%
Buy > +10% expected absolute price performance over 12 months	61	85%	155	54%
Hold +/-10% range expected absolute price performance over 12 months	11	15%	114	40%
Sell > -10% expected absolute price performance over 12 months	0	0%	17	6%

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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Company	Analyst	Shareholding (%) held by				during the last 12 months	
		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
Anglo Pacific				x			
Centaur Media				x			
Playtech							
Primary Health Properties				x	x	x	x
Rathbone Bros				x	x		

Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Anglo Pacific	29 Oct 13	Buy						
Centaur Media	30 Sep 13	Sell	26 Feb 13	Hold	25 Feb 10	Buy		
Playtech	20 Jul 11	Buy						
Primary Health Properties	13 Jun 13	Buy	28 Feb 13	Hold	20 Nov 09	Buy		
Rathbone Bros	09 Jan 14	Buy	05 Mar 13	Hold	24 Oct 12	Buy		

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