

Buy

16 February 2017

DATA

Price (close 14/2)	107p
Target price	125p
Market cap	£642m
NAV	91p
Index	FTSE SmallCap
Sector	Real Estate

STATS (POST CHANGES)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2016A	2017E	2018E	2019E
Net Op Inc (£m)	66.6	70.0	73.4	76.9
Adj EPS (p)	4.8	5.3	5.6	6.0
EPS growth (%)	(2.0)	10.3	7.2	5.9
PER (x)	22.5	20.4	19.0	17.9
DPS (p)	5.1	5.3	5.4	5.5
Div yield (%)	4.8	4.9	5.0	5.1
Adj NAV (p)	91.1	96.6	103.2	111.1
NAV/3net (p)	83.5	88.9	95.6	103.4
Disc/Nav (%)	17.7	11.1	3.9	(3.4)
Disc/3net (%)	28.5	20.6	12.2	3.7

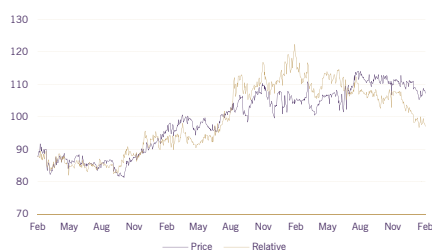
CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2017E	2017E
	Old	New
Adj NAV (p)	98	97
Adj EPS (p)	5.5	5.3
DPS (p)	5.3	nc

PERFORMANCE

Source: Bloomberg



ANALYSTS

James Carswell
+44 (0) 20 7418 8903
james.carswell@peelhunt.com

Keith Crawford
+44 (0) 20 7418 8973

Kate Renn
+44 (0) 20 7418 8878
kate.renn@peelhunt.com

Sameer Merchant
+44 (0) 20 3597 8863
sameer.merchant@peelhunt.com

Primary Health Properties

PHP

Finals: super stable income

Following the £150m equity issue earlier this year PHP has reduced LTV, purchased £74m of property at an impressive yield and although the initial dilution reduces EPS slightly, full dividend cover is maintained on a cash basis. PHP typically outperforms in uncertain times, the 5% dividend yield is derived from a super-secure income stream and we maintain our Buy recommendation.

- **EPRA earnings +24% to £26.8m and EPRA EPS -2% to 4.8p** (PHe: 5.15p) due to the initial dilution following the £150m fundraise in April.
- **FY dividend of 5.125p is in-line for a 4.8% yield.** The dividend totalled £26.8m which is fully covered by EPRA earnings (also £26.8m)
- **EPRA NAV +4% to 91p** with the portfolio increasing 2.3%. PHP was one of the few stocks that we didn't downgrade following Brexit and 4% growth is double what we expect on average from the sector.
- The **net initial yield compressed 15bps to 5.2%** and we still see good value here. Even at the current NAV premium, the share price equates to a net initial yield of around 4.8% which **looks good value** given the covenant, long lease and comparable property assets.
- The company today **announced that Richard Howell** (former finance controller at LMP) will replace Phil Holland when he steps down as FD.
- Following the £150m equity issue, **LTV now stands at 54%** (from 63% last year) and assuming the convertible bond converts (look likely given current share price), this would reduce LTV to c48%.
- **PHP acquired £74m of assets** in the period at an impressive net initial yield of c5.3% and the company reports a strong pipeline with £72m in the UK and €53m in the Republic of Ireland where yields remains significantly higher.
- The **EPRA cost ratio remains at 11.5%** - the lowest in our entire coverage (including its immediate peers Assura and MedicX).
- PHP purchased their **first asset in the Republic of Ireland** for €6.7m where the GP surgery property market remains in its infancy and yields of c6.5-7.0% offer a significant premium on the UK. PHP sees this as a significant growth opportunity and we expect this to aid earnings growth over the coming years.
- PHP offers one of the **most stable income streams** in the sector with:
 - ♦ A weighted average lease length of **14 years**
 - ♦ **90% of rent** is funded directly indirectly by the UK or Irish Government.
 - ♦ **Occupancy of 99.7%** and no tenant default in the company's history.
 - ♦ A track-record of **increasing the dividend for 20 consecutive years.**

New Dec '17 Peel Hunt forecasts

- **We reduce our Adj EPS to 5.3p (from 5.5p)** and maintain our 5.25p dividend forecast for a fully covered 5.0% dividend yield.
- **Adj NAV reduced 1% to 97p** for a 10% NAV premium.

Recommendation structure and distribution

Recommendation distribution at 16 February 2017

	Corporate No	Corporate %	No	%
Buy	85	79	171	54
Add	6	6	56	18
Hold	5	5	65	21
Reduce	0	0	13	4
Sell	0	0	5	2
Under Review	3	3	7	2

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

Conflicts of Interest

- 1 Company is a corporate client of Peel Hunt
- 2 The Analyst has a shareholding in this Company
- 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
- 7 During the last 12 months Peel Hunt has acted as a sponsor/broker/ NOMAD/ financial advisor for an offer of securities from this company
- 8 Peel Hunt holds >5% in Company (calculated under Market Abuse Regulation (EU) 596/2014)
- 9 1% beneficial ownership (calculated for purposes of FINRA under Section 13(d)/(g) of the Securities Exchange Act of 1934 and IIROC Rule 3400)
- 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	4,7	04 Feb 16	Buy	106p	125p

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Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET
T: +44 (0) 20 7418 8900
F: +44 (0) 20 7305 7088

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Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET
T: +44 (0) 20 7418 8900
F: +44 (0) 20 7305 7088