

Morning Note

23 June 2010

Primary Health Properties (PHP)

Buy

Data

Price	271p
Target price	321p
Market cap	£166.4m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, KBC Peel Hunt estimates

Y/E Dec	2009A	2010E	2011E	2012E
Net Op Inc (£m)	18.0	21.0	24.8	27.7
Adj PBT (£m)	7.9	9.7	10.4	11.0
Adj EPS (p)	21.3	15.7	16.8	17.8
EPS growth (%)	51.4	(26.3)	6.8	6.1
DPS (p)	17.0	17.5	17.6	17.8
PER (x)	12.7	17.2	16.1	15.2
Div yield (%)	6.3	6.5	6.5	6.6
NAV/H'line (x)	279.9	317.0	337.5	361.3
Prem/H'line (%)	(3.3)	(14.6)	(19.8)	(25.1)

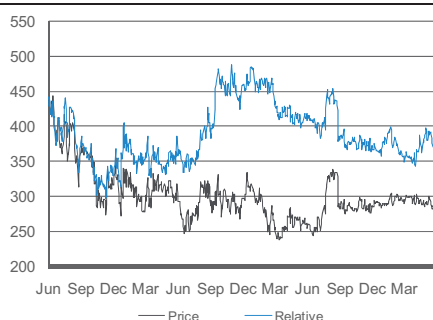
Changes to forecasts

Source: Company accounts, KBC Peel Hunt estimates

Y/E Dec	2010E	
	Old	New
Adj PBT (£m)	9.7	10.0
Adj EPS (p)	16.0	16.2
DPS (p)	17.5	nc
NAV (p)	317	318

Performance

Source: Reuters



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Corporate acquisition

PHP has acquired Health Investments Ltd, a company with a £39m portfolio of primary care facilities similar to PHP's own portfolio. At a yield of 6.1%, this transaction demonstrates PHP is able to buy attractive assets without overpaying and will assist PHP's earnings profile.

Acquisition details

- PHP has acquired Health Investments Ltd for a consideration of £11.7m, and has also assumed £28.1m of debt (i.e. total consideration of £39.8m).
- The portfolio of 14 properties was most recently valued at £39m, reflecting a 6.1% yield (vs PHP's 6%)
- The rent roll was £2.4m
- The consideration for the acquisition will be payable 75% in cash (£8.8m) and 25% in new shares issued at 290p (£2.9m). The new shares represent 1.6% of the existing number of shares in issue, and are subject to a six month lock in

Comment

- This is PHP's largest acquisition following the £57.5m fundraising last year, and following on from a couple of smaller purchases proves that the company is indeed able to access quality stock without overpaying.
- The yield at 6.1% does not look expensive, particularly when compared with PHP's own portfolio yield of 6%. The quality of the stock is high:
 - Like PHP's own portfolio, the new properties are 100% let
 - 92% of rental income is derived from the NHS with the remainder comprising on-site pharmacies
 - The weighted average lease length is > 19 years
 - The debt, attractively, has an outstanding term of 19 years
- PHP remains a best-in-class company and has proved its ability to acquire stock on good terms, even in thin and challenging markets.

Forecasts and recommendation

- Having built in acquisitions to our forecasts already, our year-end estimates are only slightly revised
- For the year ending December 2010:
 - Adjusted NAV forecast at 318p (from 317p)
 - Adjusted EPS forecast at 16.2p (from 16.0p)
- We retain our Buy recommendation