

Morning Note 19 August 2010

Primary Health Properties (PHP)

Buy

Data

Price	290p
Target price	321p
Market cap	£178.2m
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	23.4	26.3	29.2
Adj PBT (£m)	7.9	10.2	10.9	11.9
Adj EPS (p)	21.3	16.2	17.2	18.8
EPS growth (%)	51.4	(23.8)	6.2	9.2
DPS (p)	17.0	17.5	17.6	17.8
PER (x)	13.6	17.9	16.8	15.4
Div yield (%)	5.9	6.0	6.1	6.1
NAV/H'line (x)	279.9	317.1	338.9	364.7
NAV/3net (x)	247.2	284.9	306.8	332.6
Prem/H'line (%)	3.6	(8.5)	(14.4)	(20.5)
Prem/3net (%)	17.3	1.8	(5.5)	(12.8)

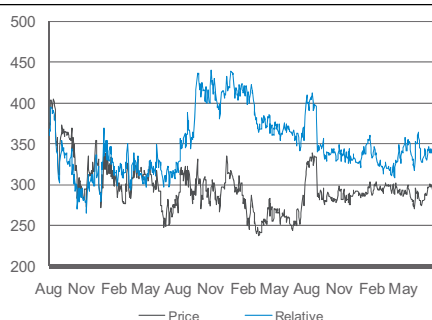
Changes to forecasts

Source: Company accounts, KBC Peel Hunt estimates

Y/E Dec	2010E		
	Old	New	
Adj PBT (£m)	10.2	nc	
Adj EPS (p)	16.2	nc	
DPS (p)	17.5	nc	
NAV (p)	317	nc	

Performance

Source: Reuters



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Impressive series of acquisitions

PHP has taken advantage of market conditions by acquiring £101m of property on attractive terms this year. Meanwhile, the standing portfolio has seen 20bps of yield compression, driving an 8.7% gain in NAV since December. PHP remains a core holding. Buy.

Highlights

- **EPRA NAV per share 304.2p** +24.3p (or +8.7%) from Dec 2009 NAV of 280p
 - Driven by 20bps of yield compression. **Initial yield 5.8%** (6% at Dec 2009).
- **£101.1m of property acquired** this year, including the recent £39m Health Investments acquisition.
 - **Rent roll £27.6m** at period end (£21.3m Dec 2009).
- Annualised rental growth holding up at an impressive annual +3.1% on review.
- **EPS 6.4p** (-30% vs 9.2p H1 2009). Due to time taken to invest funds raised in 2009.
- **Interim dividend increased to 8.75p** (+2.9% vs 8.5p H1 2009).
- **LTV 55.9%** (49% at Dec 2009). Covenant 70%.

Comment

- Initial yield, which at the trough reached 6.5%, is now down to 5.8%, as per management guidance in the April IMS. **We expect yields to stabilise** around this level for the rest of the year, so look to rents to drive H2 NAV progression.
- Robust rental uplifts at an annualised 3.1% despite the economic slowdown are impressive, particularly in the context of widespread rental pressure in the UK.
- The £101m of acquisitions following last year's £60m capital raise have impressed in demonstrating that appropriate stock is available on attractive terms. The properties have been acquired at initial yields above 6%, which compares favourably with today's reported portfolio yield of 5.8%.
- With a stated desire eventually to become a £1bn portfolio REIT, it is likely that PHP will continue with its bolt-on acquisition strategy, with further corporate deals also a possibility. However with cash and debt firepower now reduced to c£25m - £30m, new funding will have to be secured if acquisitions are to continue.

Forecasts and recommendation

- Our 2010 forecast NAV remains 317p, allowing for further revaluation gains (primarily from rental growth rather than continued yield compression).
- Our adjusted EPS estimate remains 16.2p. Cash-drag leaves this year's forecast dividend slightly uncovered by earnings, but we expect full cover next year.