

## 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

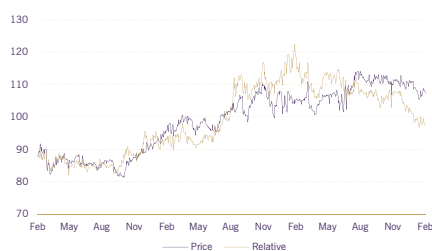
### CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

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

### PERFORMANCE

Source: Bloomberg



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## 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*

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- 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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