

19 August 2010

Primary Health Properties

Year End	Revenue (£m)	PBT* (£m)	DPS* (p)	Yield (%)	NAV/share (p)**	Disc to NAV (%)
12/08	19.7	4.6	16.5	5.5	318	6
12/09	21.3	7.9	17.0	5.7	280	(6)
12/10e	27.4	11.1	17.5	5.9	306	3
12/11e	29.5	12.0	18.0	6.1	325	9

Note: *PBT is normalised, excluding goodwill amortisation and unrealised valuation gains or losses. **EPRA NAV.

Investment summary: Primary performer

We have increased our full year NAV/share forecasts on the back of strong interim results. PHP is achieving better than anticipated rent increases, averaging 3% on review, and H2 will benefit from the full impact of acquisitions completed during H1. The growth outlook is to some extent tempered by a probable hiatus in healthcare industry investment in new primary care facilities, as it absorbs the implications of July's DoH White Paper and awaits the detailed bill due in October or November. PHP sees the proposals, which put GPs in the driving seat, as positive and retains an ambitious programme of growth via acquisition for the next few years and beyond.

£100m of acquisitions completed since open offer

Purchases in H1 complete over £100m of acquisitions since its autumn 2009 placing, all at yields of 6% or above. Firepower remains for another c £20m, but further funds will be required to maintain momentum. Options under consideration include a bond issue, supplemented by further equity to maintain LTV below 65%.

Yield shift adds to portfolio value growth in H1

The bulk of the £17.8m of portfolio growth in H1 was derived from the existing portfolio, which benefited from an average 20bp fall in valuation yields to 5.8%. We have factored this into forecasts, but assumed yields remain stable out to end FY11.

Autumn 2010 Healthcare Bill to define enhanced GP role

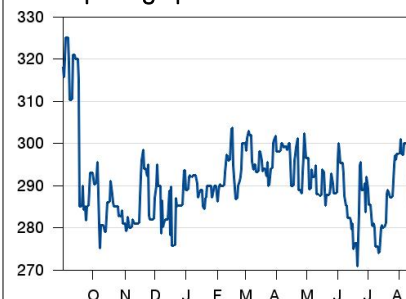
Our next report will review the detail of the Healthcare Bill, but the broad thrust of the White Paper was a shift of responsibility to GPs, which appears to underpin the case for further rollout of modern, primary care facilities. With a more certain industry outlook from 2011, PHP should continue to meet growth and dividend targets.

Valuation: Yield and NAV support, growth record & outlook

The valuation and outlook is underpinned by an encouraging first half, yield and NAV support and a track record of delivering against growth targets. EPRA NAV grew 9% in H1 to 304.2p. Our forecasts are derived from organic performance and allow for possible disruption as the industry finds its feet over the next 12 months.

Price 297.5p
Market Cap £183m

Share price graph



Share details

Code PHP
Listing FULL (UK-Reit)
Sector Real Estate
Shares in issue 61.35m

Price

52 week High 310.4p Low 270.8p

Balance Sheet as at 30 June 2010

Debt/Equity (%) 163
Net borrowings (£m) 255

Business

Primary Health Properties invests in primary healthcare property, let primarily to GPs, PCTs and other NHS entities backed by the UK government. This tenant profile provides an exceptionally secure rental outlook.

Valuation

	2009	2010e	2011e
P/E relative	138%	143%	155%
P/CF	7.2	4.8	6.8
EV/Sales	13.2	16.2	15.1
ROE	5%	7%	7%

Revenues on geography

UK	Europe	US	Other
100%	0%	0%	0%

Analyst

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Exhibit 1: Financials

	£'000s	2006	2007	2008	2009	2010e	2011e
Year end 31 December		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		11,131	22,209	19,691	21,332	27,400	29,468
Cost of Sales		0	0	0	0	0	0
Gross Profit		11,131	22,209	19,691	21,332	27,400	29,468
EBITDA		8,843	14,412	15,125	18,034	23,200	25,182
Operating Profit (before GW and except.)		8,843	14,412	15,125	18,034	23,200	25,182
Intangible Amortisation		0	(5,551)	0	0	0	0
Exceptionals		0	0	0	0	0	0
Other		0	0	0	1,318	0	0
Operating Profit		8,843	8,861	15,125	19,352	23,200	25,182
Net valuation gain on property portfolio		14,997	1,107	(17,707)	1,615	6,838	9,360
Net Interest		(5,437)	(10,844)	(10,502)	(10,181)	(12,080)	(13,160)
Profit Before Tax (norm)		3,406	3,568	4,623	7,853	11,120	12,022
Profit Before Tax (FRS 3)		18,403	(876)	(13,084)	9,468	17,957	21,382
Tax		(2,466)	20,485	(160)	0	0	0
Profit After Tax (norm)		940	24,053	4,463	7,853	11,120	12,022
Profit After Tax (FRS 3)		15,937	19,609	(13,244)	9,468	17,957	21,382
Average Number of Shares Outstanding (m)		22.7	28.3	33.6	40.6	62.6	62.6
EPS - normalised (p)		4.1	85.0	13.3	19.3	17.8	19.2
EPS - FRS 3 (p)		70.3	69.3	(39.4)	23.3	28.7	34.2
Dividend per share (p)		13.5	15.0	16.5	17.0	17.5	18.0
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		79.4	64.9	76.8	84.5	84.7	85.5
Operating Margin (before GW and except.) (%)		79.4	64.9	76.8	84.5	84.7	85.5
BALANCE SHEET							
Fixed Assets		205,188	290,095	320,133	346,290	472,000	486,040
Investment properties		199,569	282,495	316,862	341,890	468,000	482,040
Development properties		0	2,853	282	0	0	0
Net inv. in fin leases/deriv. int. Rate swaps		5,619	4,747	2,989	4,400	4,000	4,000
Current Assets		5,018	7,561	2,987	2,263	3,250	3,550
Derivative interest rate swaps		0	0	454	63	0	0
Debtors		1,033	3,646	1,808	1,939	2,700	2,500
Cash		3,973	3,862	675	212	500	1,000
Current Liabilities		(5,325)	(11,281)	(23,597)	(20,321)	(35,100)	(35,600)
Creditors		(5,325)	(11,281)	(23,597)	(20,321)	(35,100)	(35,600)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(133,556)	(162,838)	(221,237)	(176,317)	(281,800)	(283,800)
Long term borrowings		(112,363)	(159,219)	(204,088)	(166,139)	(266,800)	(268,800)
Other long term liabilities		(21,193)	(3,619)	(17,149)	(10,178)	(15,000)	(15,000)
Net Assets		71,325	123,537	78,286	151,915	158,350	170,190
CASH FLOW							
Operating Cash Flow		8,785	12,743	15,799	15,951	37,210	25,882
Net Interest		(5,437)	(10,844)	(9,883)	(8,908)	(12,080)	(13,160)
Tax		(34)	(826)	0	0	0	0
Capex		0	0	0	0	0	0
Acquisitions/disposals		(20,405)	(8,1565)	(49,311)	(23,413)	(104,000)	(3,000)
Financing		0	41,443	0	60,748	2,900	0
Dividends		(2,803)	(5,979)	(5,542)	(5,562)	(10,950)	(11,263)
Other (incl. non cash MTM shift in derivative vals)		0	0	0	0	(13,500)	0
Net Cash Flow		(19,894)	(45,028)	(48,937)	38,816	(100,420)	(1,541)
Opening net debt/(cash)		87,888	108,390	155,357	203,413	165,927	266,300
HP finance leases initiated		0	0	0	0	0	0
Other		(808)	(1,939)	881	(1,330)	47	41
Closing net debt/(cash)		108,390	155,357	203,413	165,927	266,300	267,800

Source: Company accounts/Edison Investment Research

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