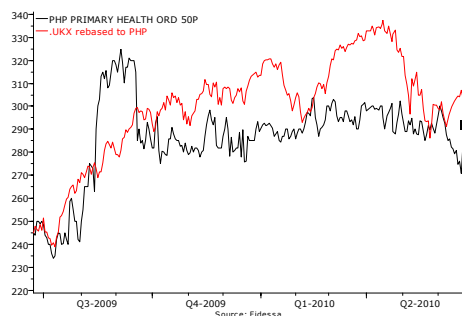


Primary Health Properties 296p

Sensible Acquisition

24 June 2010

Share Price: 296p



12m High: 320p

12m Low: 275p

Market Cap: £185m

Shares in Issue: 62.6m

NAV/Share: 280p at 31.12.2009, est. 302p currently, both on EPRA basis

Gearing: LTV 54% at 12/09

Interest Cover: 1.9X for y/e 12/2009

EPIC Code: PHP

Sector: Real Estate

Market: London Full List

Brokers: Numis Securities/Peel Hunt

PR: Pelham Bell Pottinger +44 (0)20 7861 3232

Website: www.phpgroup.co.uk

Description: PHP lets out GP surgeries to GP partnerships on long term leases. The rent GPs pay is reimbursed by the public sector.

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A £39m portfolio acquisition by GP surgery specialist Primary Health Properties boosts the size of the portfolio by 10%. The purchase of the privately owned Health Investments Ltd was completed just before midnight on Budget Day, and was almost certainly influenced, from the point of view of the group of private investors that sold it, by the impending rise in Capital Gains Tax.

Key points of the deal are:

- The rent roll is £2.4m, so PHP is buying this on a net initial yield of 6.1%. This is somewhat ahead of the current 5.8% being used by valuers. If a 5.8% yield basis is used for the end-June Interim valuation, then PHP will receive an immediate £2m. uplift in capital value.
- The properties are 91% let to GPs and the NHS, the remainder to 'strong covenant' pharmacy operators. Leases average 19 years and have 3 yearly upward only reviews. This mirrors the existing PHP portfolio.
- There are 14 properties, average value £2.8m, which is similar to the existing PHP property size, but smaller than the size of other recent acquisitions. PHP has been attempting to increase the average size of properties in its portfolio; this deal does not take it any further forward in this respect. The properties are relatively new build, average age c. 5 years.
- The properties are principally in South-East England, where PHP has until now been slightly under-represented. This deal gives the portfolio more balance.

Payment is £2.9m in shares, £8.8m in cash (financed by PHP's loan agreement at just over LIBOR) for a total of £11.7m. There is £28.1m of debt within Health Investments Ltd that PHP has inherited with the deal. The debt has a 19 year life to match the portfolio leases.

The acquisition takes the value of the PHP property portfolio, including commitments, to in excess of £450m on a 5.8% yield valuation basis. The co. has now bought or committed to c. £90m of new property since the year-end. We estimate that it probably has the headroom under its loan agreements to add a further £90m of properties and we expect further acquisitions in the July-December half year.

Y/E	Group Sales	Adjusted Profit*	Adjusted EPS **	P/E ratio	Divi #	Yield
December	£m	£m	p.		p.	%
2007A	15.7	4.2	13.3	22.2	15.18	5.1
2008A**	19.7	4.6	14.0	21.1	15.91	5.4
2009A	21.3	7.8	20.2	14.6	17.25	5.8
2010E	26.0	11.0	18.0	16.4	17.50	5.9

* EPRA basis ** Restated # ex-rights adjusted

Primary Health Properties

24 June 2010

Management	Major Shareholders										
<p>Chairman: Graeme Elliott</p> <p>Managing Director: Harry Hyman</p> <p>Property Management: A team of seven based in Woking.</p>	<table> <tr> <td>Harry Hyman (inc. Nexus Group)</td> <td>6.1%</td> </tr> <tr> <td>Blackrock</td> <td>4.1%</td> </tr> <tr> <td>Aberdeen Asset Management</td> <td>3.5%</td> </tr> <tr> <td>Legal & General</td> <td>3.1%</td> </tr> <tr> <td>.</td> <td>.</td> </tr> </table>	Harry Hyman (inc. Nexus Group)	6.1%	Blackrock	4.1%	Aberdeen Asset Management	3.5%	Legal & General	3.1%	.	.
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Legal & General	3.1%										
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Key Dates	Key Milestones										
<p>Interim Results: Early September 2010</p>	<p>1994 Business model put forward by Harry Hyman</p> <p>1995 Purchase of small portfolio and incorporation</p> <p>1996 Floated on AIM, shortly afterwards upgrading to the Official List.</p> <p>2002 Wanless Review proposing reforms in the NHS</p> <p>2007 PHP converts to REIT status Darzi Interim Report launching the reform of public primary care</p> <p>2008 (May) Largest single acquisition, Port Talbot (£15.6m) (June) Darzi Review expanding on initial reform</p> <p>2009 (March) £3m capital raising at 220p (September) £60m equity capital raising at 230p, comprising placing and 1-for-5 rights issue.</p> <p>2010 Purchase of CareCapital property portfolio for £24m. Purchase of Health Investments Ltd £39m portfolio.</p>										

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