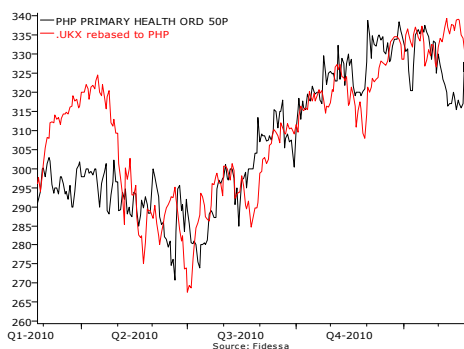


Primary Health Properties 332.375p

Demand for primary care facilities to remain strong

1 March 2011

Share Price: 332.375p



12m High: 339p

12m Low: 270.75p

Market Cap: £208m

Shares in Issue: 62.8m

NAV/Share: 311.5p on EPRA basis

262.3p on balance sheet at 12/2010

Gearing: LTV 57.6%

Interest Cover: 2.2X

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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Primary Health Properties has released its results for the year ended 31 December 2010. Key points to note from the results are:

- Profit before revaluation and change in fair value of derivatives of £9.1m up 15% from £7.9m
- Profit after tax of £25.7m up 72% from £14.9m
- Basic NAV of 262.3p per share up 6% from 247.2p per share
- EPRA NAV of 311.5p per share up 11% from 279.9p per share
- LTV ratio 57.6% against a covenant of 70%
- 33 properties acquired during the year increasing Primary Health Properties' portfolio value from £341.9m to £469.3m
- Including commitments portfolio value now £507.8m at an initial yield of 5.8%
- Rents received up £5.6m to £26.6m
- Annualised rent increases of 3.2%, combined with acquisitions, increased contracted rent roll to £28.0m
- Portfolio fully let – no voids

Demand for purpose built primary care centres remains strong and Primary Health Properties is well positioned to benefit from this. Health and Social Care Bill proposals are expected to increase demand still further.

As at 31 December 2010 Primary Health Properties had commitments to acquire seven new properties throughout the UK with a total committed cost of £37.7m. All of these commitments are 100% pre-let. Post the year end the Group entered into an agreement to purchase a further property with a commitment cost of £4.2m. The Group also has a good pipeline of potential deals for 2011.

Following the results announcement we have adjusted our normalised forecast eps downwards, reflecting higher net finance charges as a result of refinancing term loans due to expire in 2013.

Further growth in Primary Health Properties' portfolio, combined with continued rental growth – 86% of rents are subject to triennial reviews – and property revaluations, will continue to underpin the dividend yield on offer.

Y/E	Group Revenue	Adjusted Pre-Tax Profit*	Adjusted EPS *#	P/E ratio	Dividend #	Yield
December	£m	£m	p.		p.	%
2009A	21.3	7.3	18.4	18.1	17.00	5.1
2010A	26.9	9.1	14.7	22.7	17.50	5.3
2011E	29.7	9.2	14.5	22.9	18.00	5.4
2012E	32.7	11.1	17.5	19.0	18.50	5.6

* EPRA basis

ex-rights adjusted

Primary Health Properties

1 March 2011

Primary Health Properties Portfolio

Primary Health Properties' portfolio currently consists of 148 properties throughout the UK. Commitments have been made to acquire a further 8 properties bringing the total number of properties in the portfolio to 156.

90% of the Group's properties are leased directly or indirectly to the Government. 77% are leased by GPs, 12% by the NHS, 1% by the Government directly and 9% are leased by pharmacies. Of the pharmacy leases 81% are held by leading pharmacy chains, for example 45% of Primary Healthcare Properties' pharmacy portfolio is tenanted by Lloyds Pharmacy.

The portfolio is fully let, with, as at 31 December 2010, an average remaining lease length of 17 years.

Rents

86% of the properties in Primary Healthcare Properties' portfolio are subject to triennial rent reviews – effectively upward only rental reviews. Circa 12% of the property rents are index linked and a further 2% are on a fixed uplift. Rentals on the remaining 86% of the portfolio have historically broadly tracked RPI increases.

Financials

For the year to 31 December 2010 Primary Health Properties delivered earnings per share of 41.3p. After adjusting for net property valuation gains of £22.8m, a fair value loss on derivatives of £4.7m and a conversion charge of £1.6m, normalised earnings per share were 14.7p. The one-off charge on conversion to UK-REIT status arose as a result of acquisitions made during the year.

A second interim dividend of 9p for the year has been declared, payable on 31 March 2011. The full year dividend for 2010 of 17.5p was the thirteenth successive increase in dividend paid by the Group since 1997 and reflects the Group's commitment to paying out substantially all available profits as dividends.

As at 31 December 2010 the LTV on Primary Health Properties property portfolio was 57.6% versus a covenant of a maximum of 70%. Interest cover was a healthy 2.2x versus a covenant of 1.3x.

Total borrowings were £268m versus available banking facilities of £321m. As at 18 February 2011 a further £41.9m has been committed, leaving the Group with limited available headroom.

Given that demand exists by the healthcare sector for new properties Primary Health Properties will be seeking to expand its facilities and the Group is currently in discussions over a new £50m facility. It is also currently engaged in discussions to re-finance existing term loans totalling £255m which fall due for renewal on 31 January 2013. As a result of these discussions it is expected that Primary Health Properties' banking facilities will be further enlarged.

Financial Forecasts

Following Primary Healthcare Properties' final results we have updated our forecasts to reflect higher net finance costs as we expect the re-financing of the term loans due to expire in 2013 will necessarily be at a higher rate. Shareholders will also benefit from changes to the Group's Joint Management Agreement which reduces the marginal cost of management for gross assets over £500m to 0.525% from 0.75%, and over £750m to 0.4375%.

Our new normalised earnings per share forecast for 2011 is for 14.5p and for 2012 is for 17.5p (previously 17.3p and 18.2p). However, with the benefit of property revaluations, and in line with the Group's progressive dividend policy, we anticipate further dividend increases in both 2011 and 2012. Our forecasts are for dividends of 18.0p and 18.5p respectively.

“A second interim dividend of 9p has been declared, payable on 31 March 2011”

Primary Health Properties

1 March 2011

Management	Major Shareholders										
<p>Chairman: Graeme Elliott</p> <p>Managing Director: Harry Hyman</p> <p>Finance Director & Deputy Managing Director: Phil Holland</p> <p>Property Management: A team of eight based in Woking.</p>	<table> <tr> <td>Harry Hyman (inc. Nexus Group)</td> <td>5.9%</td> </tr> <tr> <td>Blackrock</td> <td>4.0%</td> </tr> <tr> <td>Legal & General</td> <td>3.9%</td> </tr> <tr> <td>Aberdeen Asset Management</td> <td>3.5%</td> </tr> <tr> <td>BT Pension Scheme Trustees</td> <td>3.2%</td> </tr> </table>	Harry Hyman (inc. Nexus Group)	5.9%	Blackrock	4.0%	Legal & General	3.9%	Aberdeen Asset Management	3.5%	BT Pension Scheme Trustees	3.2%
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Blackrock	4.0%										
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BT Pension Scheme Trustees	3.2%										
Key Dates	Key Milestones										
<p>AGM: April 2011</p> <p>Interim Results: August 2011</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 - £3m placing at 290p as part consideration</p>										

Primary Health Properties

1 March 2011

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