

Buy

25 July 2018

DATA

Price (close 23/7)	116p
Target price	125p
Market cap	£847m
Jun '18 NAV	104p
Index	FTSE 250
Sector	Real Estate

STATS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2017A	2018E	2019E	2020E
Net Op Inc (£m)	71.3	73.7	82.2	90.6
Adj EPS (p)	5.2	5.3	5.8	6.2
EPS growth (%)	9.8	1.4	9.3	6.6
PER (x)	22.0	21.7	19.9	18.7
DPS (p)	5.3	5.4	5.6	5.7
Div yield (%)	4.5	4.7	4.8	4.9
Adj NAV (p)	100.7	104.8	108.9	113.9
NAV/3net (p)	94.7	99.9	104.3	109.2
Disc/Nav (%)	14.8	10.3	6.1	1.5
Disc/3net (%)	22.0	15.7	10.9	5.8

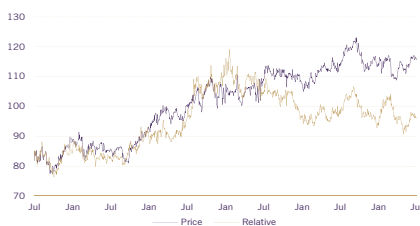
CHANGES TO FORECASTS

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2018E	2018E
	Old	New
Adj NAV (p)	105	106
Adj EPS (p)	5.3	nc
DPS (p)	5.4	nc

PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

Primary Health Properties[#]

PHP

Interims: Further opportunities ahead

H1 2018 was a notable period for PHP with a £115m equity fundraise, inclusion in the FTSE 250 and further expansion into Ireland. The company has an enviable long-term record and we see further good performance ahead with a significant refinancing opportunity over the next 12 months, a gradual return to rental growth, a strong acquisition pipeline and a well-capitalised balance sheet. We see the potential for further upgrades and today we retain our Buy recommendation.

- **Adj NAV increased +3.5% to 104.2p** which looks to be **tracking ahead** of our FY forecast of 105p and is already ahead of consensus at 103p.
- NAV was driven by a **higher than expected property revaluation gain of 1.5%** which compares to our uplift assumption for the full year of +2.0%.
- PHP's **net initial yield compressed 6bps** to 4.85% (around half the uplift) and **rental growth continues to pick-up**, albeit from a low base, with +1.7% achieved on rent reviews compared to 1.1% and 0.9% in 2017 and 2016.
- **EPRA EPS fell 4% to 2.5p** reflecting the recent equity issue. We exclude a performance fee (c£600k in H1) from our **Adj EPS which equals 2.6p**.
- **DPS increased 3% to 2.7p** which is in line with expectations and equates to an annualised yield of 4.6%. This is the 22nd successive year of growth and this is 96% covered on a per share/declared basis or 105% on a cash basis.
- During H1 PHP **purchased two assets for £24m, exchanged contracts for a further £5.1m and £20m has been allocated to a forward funding project** in Country Wicklow, Ireland. Including asset management initiatives, around £53m was invested in total in H1 (our model assumes £100m over full year).
- Importantly, the company continues to have a strong pipeline which has now **increased to £175m across both Ireland and the UK** – an increase on the £151m pipeline at the time of the £115m capital raise in April.
- Post period end the company **re-coupled a £70m swap** which reduced EPRA NAV marginally (broadly offsetting the accretion from the equity raise) and reduced the cost of debt to 3.86% (from 4.09% at Dec '17).
- PHP has a **further refinancing opportunity** with the 2019 maturity of the retail bond (5.375% coupon) and the convertible bond (4.25% coupon). The convertible bond is gradually being converted (further £5.4m in H1) and combined, we estimate that by refinancing these two bonds (at c3%) would lead to finance savings of over £2.5m (or around 0.3-0.4p per share).
- Following the equity issue, **LTV stands at 45%** but assuming the convertible converts (97.5p conversion price) this reduces this to **40.5%** pro forma.

Peel Hunt Forecasts

- **Adj NAV increased +1%** to 106p (from 105p) for a 10% premium. This accounts for the higher revaluation gain and the re-coupling of the swap.
- EPS and DPS unchanged at 5.3p and 5.4p for a 4.6% yield and 22x P/E ratio.

Recommendation structure and distribution

	Recommendation distribution at 24 July 2018				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	74	75	180	52	77	55
Add	10	10	51	15	10	15
Hold	9	9	82	24	9	22
Reduce	0	0	16	5	0	4
Sell	0	0	5	1	0	2
Under Review	8	8	11	3	5	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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4	Peel Hunt makes a market in this Company
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Recommendation history

Company	Disclosures	Date	Rec	Price	Target Price
Primary Health Properties	4,7	20 Apr 17	Buy	113p	125p

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