Edison investment research

3 March 2011

Primary Health Properties

Year End	Revenue (£m)	PBT (£m)*	EPS (p)*	DPS (p)*	Yield (%)	NAV/ share (p)**	Disc. To NAV (%)
12/09	21.3	7.9	18.4	17.0	5.1	286	(14)
12/10	26.9	9.1	14.7	17.5	5.2	312	(7)
12/11e	30.0	10.2	16.2	18.0	5.4	344	0
12/12e	32.0	10.5	16.7	18.5	5.5	365	9

Note: *PBT and EPS are normalised, excluding goodwill amortisation, unrealised valuation gains or losses and MTM changes in swaps. **EPRA NAV.

Investment summary: Healthy outlook

PHP is interestingly poised. A £508m portfolio makes it the largest investor in UK primary care property, an asset base which it can manage for dividend growth. However, it has suggested that it would be disappointed if it does not add another £50m to its portfolio this year and recent changes to management fees – announced ahead of the results – suggest that it has already reflected upon the benefits of much larger scale, perhaps gross assets of £750m-£1bn. With an estimated market share below c 2% there is room for growth, but the key will be access to new capital and debt, and the refinancing of bilateral loans maturing in 2013 on terms that allow growth at positive initial margins. That will be an important measure of success in FY11, as it could provide a springboard for accelerated growth over the next two to five years.

Finances: Fully funded for existing commitments

After an active year the aggregate LTV ratio was 57.6% (FY09: 48.9%), still well within a 70% covenant. There is cash and undrawn facilities in place to cover all existing commitments as well as a number of modest acquisitions, the most recent of which is a medical centre in Newark, purchased for £4.2m in February.

Sensitivities: NHS reforms likely to delay commitments

A number of issues will affect growth over the next 12-18 months, but the affect of recent NHS reforms is probably key. These do not appear to dent the case for primary care investment, but the timing of new commitments will be affected by a shift of budget responsibility for new developments from PCTs to new GP consortia.

Valuation: Secure 5.4% yield remains core attraction

Dividend increases this year and next look secure, but faster earnings, dividend cover and growth in the medium term hinges on an ability to accelerate acquisitions and roll out asset management and funding initiatives. These may include a move away from traditional bank debt, towards bonds and other long-term institutional finance. The shares are also supported by the NAV growth outlook and DCF.

Price	334.5p
Market Cap	£210m

Share price graph

Share details

Code	PHP
Listing	FULL
Sector	Real Estate (UK-REIT)
Shares in issue	62.8m

Price

52 week	High	Low
	350p	271p

Balance Sheet as at 31 December 2010

Debt/Equity (%)	162
Net borrowings (£m)	267

Business

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

Valuation

	2010	2011e	2012e
P/E relative	171%	202%	217%
P/CF	8.5	5.8	5.8
EV/Sales	14.1	16.8	16.8
ROE	5%	5%	5%

Revenues by geography

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

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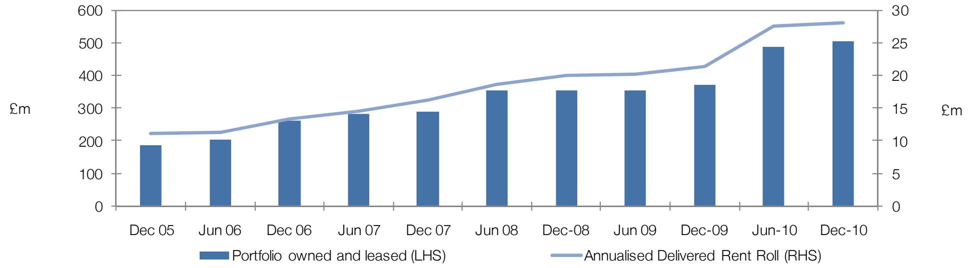
Primary Health Properties is a research client of Edison Investment Research Limited

Investment summary: Still looking healthy

Company description: Leading investor in UK primary care assets

The group is a dedicated healthcare REIT. Its portfolio comprises entirely UK primary health assets let to NHS-backed GP tenants, pharmacies and other high quality covenants on secure long-term leases. It is not a mainstream developer or service provider and its 148 properties were 100% let at the end of 2010, with an average unexpired lease term of c 17 years. This provides exceptional revenue visibility, on the back of which PHP has grown dividends steadily. The stability of the investment portfolio – and indeed the asset class relative to other commercial property – is reflected in growth in both portfolio valuations and rent roll.

Exhibit 1: Portfolio and rent roll – growth record



Source: PHP RNS

Valuation: 5.4% prospective yield, secure dividend growth outlook

The shares trade ahead of historic NAV/share (EPRA NAV 311.5p at end FY10, NNNAV 262.3p). The key investment appeal is the 5.4% prospective yield, underpinned by revenues derived from high quality sources. Although this was partly uncovered in FY10 and we believe will be again (ie c 90% covered) this year and next, the shortfall of c £1.2m pa is affordable and we fully expect dividend growth this year and next. Management has clear ambitions to ratchet up portfolio scale, net returns and, in turn, medium-term dividend growth.

Sensitivities: NHS changes, but don't alter market fundamentals

The shift to GP consortia and greater patient choice should benefit providers of modern primary care facilities, but in the meantime changes may disrupt the pipeline of new commitments and slow portfolio growth. We assume underlying rental growth of 2.5% pa, which may prove conservative and, in addition, PHP plans asset management, financing and margin initiatives, which we discuss in this note. Restoration of dividend cover will depend upon the pace and terms of these, with strategic decisions taken to benefit medium-term, rather than short-term, performance.

Financials: Debt restructure is a priority for FY11

PHP has fully invested the £62m raised in 2009 and has resources to cover existing commitments. Aggregate LTV was 57.6% at end FY10, well within the 70% debt covenant. Discussions are already well-advanced regarding loan maturities due in 2013. We see full dividend coverage restored, all things remaining equal, from 2013, but the calculation may change as the group seeks to 1) refinance or renew existing debt, possibly at higher borrowing margins; 2) secure alternative sources of longer-term finance, ie bonds or 10 year plus fixed rate institutional debt, and 3) restructure the swaps portfolio, the cost of which is highly sensitive to movements in interest rates.

Company description: Investor in primary care assets

Exhibit 2: Primary Health Properties fact sheet

Operations and performance

Primary Health Properties

PHP is a traditional REIT in strategy and structure. It owns 148 income producing properties, valued at £508m including commitments, which it seeks to grow via acquisitions that generate immediate positive yields, net of acquisition and debt financing costs. The aim is net income growth to support progressive dividends.

It operates a low-risk property investment model, focused on a long-term, non-cyclical market. The portfolio is fully let to healthcare related tenants, including GPs, primary care trusts, health authorities and other associated users. Some 90% of rental income is underpinned by UK government funding, with the remainder predominantly covered by pharmacies collocated with its properties, also very strong covenants.

The group announced a £4.2m acquisition post the year end and has further resources for a few further additions. Material increases in portfolio scale will however require new facilities and probably additional equity. The refinancing of existing debt, particularly that expiring in 2013 is one of the strategic priorities for this year. With less attractive terms available from banks, the group will look to restructure the balance sheet and shift the emphasis to bonds and long-term fixed rate institutional finance. Its ability to redeem that part of the swap portfolio which is no longer required, on acceptable terms, has implications for short-term profitability, but higher market interest rates would assist.

With new finance in place, growing demand for modern healthcare facilities, proven market access and the recently revised management fee structure should contribute to accelerated earnings and dividend growth.

Results highlights

	2008	2009	2010	2011e	2012e
Revenue (£m)	19.6	21.3	26.9	30.0	32.0
Normalised pre-tax profit (£m)	4.6	7.9	9.1	10.2	10.5
Earnings per share (p)	13.3	18.4	14.7	16.2	16.7
Dividend per share (p)	16.5p	17p	17.5p	18.0p	18.5
Net assets (£m)	78.3	155.4	164.7	185.3	198.5
EPRA NAV/share (p)	317.6	285.6	311.5	344.2	365.1

Financial performance

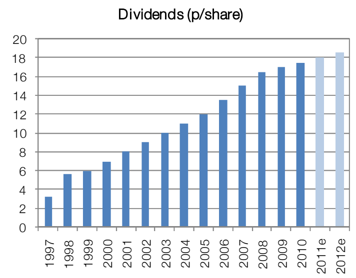
Adjusted FY10 operating profit (before revaluation and fair value changes in derivatives) was £9.1m (FY09: £7.9m). FY10 dividends were 17.5p during the year (2009: 17.0p), maintaining over a decade of dividend growth.

The c £62m of new equity raised during 2009 has been fully invested and acquisition led portfolio growth plus rent reviews were behind a £5.6m increase in rents received to £26.6m. In total 33 properties were purchased during the year, at a cost of £102.6m. These added £6.71m to the rent roll of £28m at the year end.

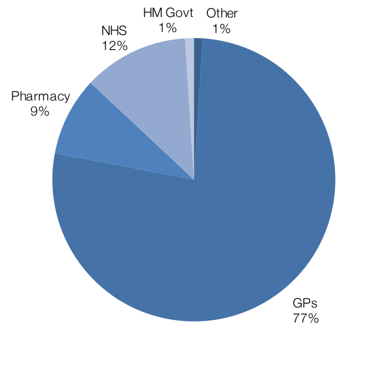
There is potential for further rental growth, reflected in recent reviews and the fact that average rents of £200-225/sqm are being agreed on new properties (albeit often higher specification buildings) relative to a £174/sqm average for the existing let portfolio.

Year end group debt equated to a 57.6% loan to value ratio vs a 70% covenant (2009: 48.9%). Interest cover was 2.1x vs a 1.3x covenant.

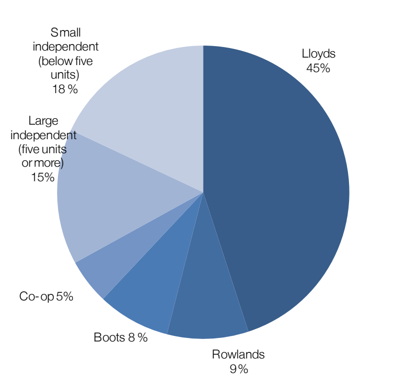
The value of the investment portfolio increased from £341.9m to £469.3m, benefiting from the combination of an average annualised uplift of 3.2% on reviews completed in the year and acquisitions. The portfolio was 100% let at the year end. Basic NAV/share was 262.3p (FY09: 247.2p), EPRA NAV/share 311.5p (FY09: 279.9p), which reflects rent reviews and a downward shift in valuation yields to 5.8%.



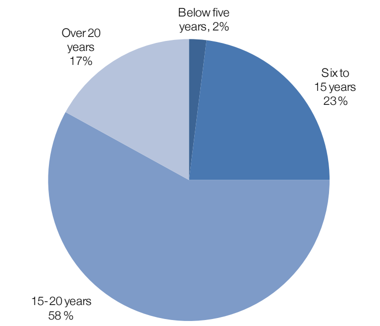
Annual rent by tenant



Rent by geographic region



Rent by unexpired lease term



Source: Edison Investment Research

FY10: Portfolio growth and asset management

PHP added £102.6m – 33 completed investment properties – to its portfolio in FY10 and made no disposals. At the end of 2010 the group had also committed to acquire another seven properties for a total of £37.7m, of which £31.2m was still outstanding at the year end. All these commitments are 100% pre-let and, in February 2011, it agreed to a further purchase of a newly developed health centre in Newark, at a £4.2m cost. As at mid-February, including commitments, the group portfolio was valued at £507.8m, at an initial yield of 5.8%.

Exhibit 3: Cash flow – step up in acquisitions completed during FY10

	2010 £m	2009 £m
Cash generated from operations	24.93	17.53
UK-REIT conversion charge instalments	(1.93)	(1.58)
Tax paid	(0.19)	0.00
Net cash flow from operating activities	22.80	15.95
Acquisitions		
Investment properties	(25.23)	(23.41)
Shares in AH Medical Properties PLC	(0.48)	0.00
Anchor Meadow Limited	(5.50)	0.00
Sinclair Montrose Properties Limited	(23.84)	0.00
Abstract Integrated Healthcare Limited	(1.86)	0.00
Charter Medinvest Limited	(6.79)	0.00
Health Investments Limited	(7.21)	0.00
	(70.91)	(23.41)
Financing activities		
Proceeds from share issues (net of expenses)	0.00	60.75
Term bank loan drawdowns	85.70	38.99
Term bank loan repayments	(15.92)	(77.29)
Swap interest payable	(8.46)	(6.54)
Loan arrangement fees	(0.18)	0.00
Interest paid	(3.21)	(3.43)
Interest received on developments	0.13	0.05
Bank interest received	0.00	0.00
Other interest	0.01	0.04
Dividends received	0.02	0.00
Equity dividends paid	(9.83)	(5.56)
Net cash flow from financing activities	48.26	7.00

Source: Edison Investment Research

The year was also busy from an asset management perspective. Projects to enhance property performance were completed at eight sites. Four surgery leases (combined total rent above £0.5m pa) were extended by between 10 and 15 years, which improved the revenue longevity. Work is underway on the addition of a pharmacy at Burton Latimer from April 2011, pre-let to Lloyds Pharmacy and terms were agreed for projects at five other sites to be undertaken in 2011.

The portfolio is 100% occupied, with c 90% of the rent roll effectively paid by the government and a c 17 year unexpired lease term. PHP reported continued rents increases, with the new procedure for rent appeals starting to “yield positive results”. A year end external valuation took the view that primary care property yields had tightened and stabilised during in 2010 and appraised the portfolio at £469.3m, at a true equivalent yield of 6.0% (2009: 6.2%) and 5.8% initial yield (2009: 6.0%).

Acquisitions behind 37% growth in investment assets

During FY10 the group acquired a number of investment companies/portfolios and individual properties, geographically spread. As at the end of FY10, the portfolio of 148 delivered properties were occupied by 866 GPs and served nearly 1.5m patients.

Exhibit 4: Acquisitions during 2010

	Investment properties £m	Investment properties under construction £m	Total £m
As at 1 January 2010	338.4	3.5	341.9
Property additions	0.8	20.4	21.2
Acquired investment property, Lanark	3.6		3.6
Anchor Meadow Limited	5.5		5.5
Sinclair Montrose Properties Limited	23.9		23.9
Abstract Integrated Healthcare Limited	4.9		4.9
Charter Medinvest Limited	6.8		6.8
Health Investment Limited	38.7		38.7
Transfer from properties in the course of development	17.3	(17.3)	0.0
Revaluations for the year	22.2	0.6	22.8
As at 31 December 2010	462.1	7.2	469.3

Source: PHP RNS

The table below provides a breakdown of the year-end portfolio, balanced between stabilised, income producing investment properties, those under development (forward funded by PHP) and commitments to purchase.

Including commitments, the total portfolio was valued at £504m at the year end and with the addition of a £4.2m property in Newark, purchased in February 2011, PHP is now the largest investor in primary care assets.

Exhibit 5: Portfolio breakdown

	2010 £m	2009 £m
Investment properties	462.1	338.4
Properties in the course of development	7.2	3.5
Total properties	469.3	341.9
Finance leases	3.1	3.0
Total owned and leased	472.4	344.9
Committed as at 31 December	31.2	26.1
Total owned, leased and committed	503.6	371.0
Closing annualised rent roll (on completed properties)	28.0	21.3

Source: PHP RNS

The group remains optimistic regarding the growth outlook. It takes the view that the proposed structural changes to the NHS will result in greater opportunities for deployment of capital in the medium term, although in the short term, industry disruption has inevitably led to lower levels of new project approvals.

The statement confirmed that there is a satisfactory pipeline of potential deals for FY11.

Financials: Progressive revenues and dividends

Focus on rent, earnings enhancing acquisitions, asset management

The innate stability of the primary care asset class was proved over the last few years, but as the commercial property market – and risk appetite – recovers, the investment case pivots upon dividend growth, particularly while other property niches outperform. This will be driven by:

1) Growth in rents within the existing portfolio.
2) Management's ability to acquire new assets at prices that generate an immediate positive margin. That in part depends upon securing new debt and equity on satisfactory terms.
3) Other asset manager initiatives that act to improve margins, such as recent changes to the management fee structure, which will benefit the bottom line as the portfolio grows.

The group remains committed to a progressive, covered dividend. The lack of cover in FY10 – dividends were 81% covered by cash earnings reflects 1) higher administrative charges and the time lag before the full benefits of recent acquisitions are reflected in earnings, 2) costs relating to maintaining the swaps portfolio, 3) the modest interest earned on the £60m cash raised in 2009 pending its investment, and 4) the addition of c 28m new shares. There is potential for full cover to be restored as recent acquisitions kick-in, but moves to restructure the balance sheet may generate short-term costs in exchange for a more appropriate financial base to support plans for faster portfolio growth. We forecast better than 90% cover this year and in FY12.

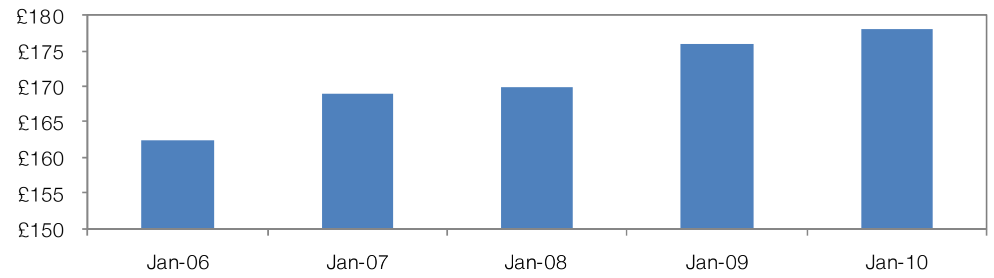
3.22% weighted average growth on reviews completed in FY10

Weighted average annual rental growth for the year was 3.22% (2009: 3.12%), ie reviews completed in FY10. Over a typical three year review pattern, this equates to a 10% rental uplift (2009: 9.4%). Annualised rent roll on completed properties was £28m (FY09: £21.3) at end FY10.

Rent reviews on the GP occupied space are carried out by the District Valuer on behalf of the NHS, which reimburses practices for rents paid. Its assessment incorporates market rents for new developments and measurements of value for money in the case of new schemes. It also works with the NHS to approve new primary care developments. PHP successfully challenged the appeals procedures last year, which it expects to improve processes and rental growth prospects over time.

Exhibit 6 shows growth in average rents per square metre across the portfolio, which remains well below the reported £200-225/sqm range reported as recently agreed with tenants on new build properties.

Exhibit 6: Aggregate portfolio rent per square metre



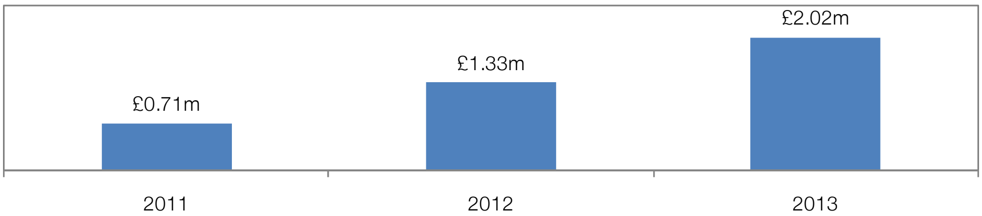
Source: PHP RNS

Rent growth: Underpinned by inflation and "specification creep"

Around 86% of the rent roll is subject to three-yearly rent reviews, on an effective 'upwards only' basis. The remainder is fixed uplift (2%) and index-linked (12%). Rental growth has tended to correlate to underlying inflation, but may be higher in future as progressive increases in specification for new NHS buildings, for example energy efficiency and reduced carbon footprints, which is expected to drive up replacement costs and justify higher rents.

Exhibit 5 sets out PHP's assessment of potential, cumulative increases in group cash flow that would be generated if the above reviews achieved 7.5% increases, relating to a three-year period, and illustrate the scale of potential revenue growth from existing properties.

Exhibit 7: Rental growth portfolio from stabilised portfolio



Source: PHP RNS

Strategic priority for FY11: Restructure facilities for long-term growth

One of the strategic priorities for FY11 is to refinance and, probably, restructure group debt. Some £255m of term loans are due for renewal at the end of January 2013. Exhibit 8 below sets out a borrowing profile with relatively short-term maturities, ie less than optimal for a portfolio with a 17-year weighted average lease expiry.

Exhibit 8: Borrowing profile

	Facility 2010	Amounts 2010	Undrawn 2010
Current			
364 day revolving (RBS)	10.0		10.0
Term to May 2011	3.4	3.0	0.4
Non-current			
Term to January 2013 (RBS)	140.0	134.3	5.7
Term to January 2013 (AIB)	50.0	37.9	12.1
Term to January 2013 (Santander)	65.0	65.0	-
Fixed term loan (Aviva)	28.1	28.1	-
Term to December 2020 (Aviva)	25.0	-	25.0
	321.5	268.3	53.2

Source: PHP RNS

Negotiations are well advanced with new and existing sources of finance, for an additional c £100m of new facilities and to restructure or refinance existing debt. PHP reported that it had received heads of terms for a £50m, interest only facility with a new lender. We expect the terms of new debt to be better matched to the long-term investment strategy.

Traditional bank lending is available on less attractive terms, typically margins c 1% higher, which could impact free cash flow and capacity to grow dividends. PHP is looking at other financing structures, ie bonds and further long-term facilities from institutions, such as the two term-loans already provided by Aviva.

Interest rate hedges: Unwinding swaps is short-term cost issue

Another issue affecting the benefit of any restructuring relates to PHP's £208m outstanding swap portfolio, held to hedge the cost of bank debt. This included £88m of swaps, callable at the bank's option on a quarterly basis. These were not called on 11 February 2011 and the next relevant date is 11 May 2011. A total of £200m basis rate swaps matured on 11 February 2010.

It is clearly possible that some part of this portfolio would no longer be required post refinancing, ie if floating rate debt is replaced by long-term fixed rate finance. In that case, PHP would either incur a one-off cancellation fee, or the annual costs of maintaining a portfolio which extends to 2026.

The potential cost should fall if market interest rates rose sharply, as the mark-to-model value fluctuates with movements in term interest rates and, in the case of the callable swaps, with market volatility. A further valuation undertaken as at 21 February 2011, valued PHP's total MTM liability at £21.9m, a fall of £7.7m vs end December 2010 as forward rates have risen since that date.

The accounting treatment of the group's "effective" swaps shows the mark-to-model movement matched against the hedged liability in the balance sheet. FY09 saw a £6m increase in the MTM liability of these "effective" interest rate swaps to £30.9m (2009: £7.7m decrease), which essentially reflected the fall in medium-term interest rates year-on-year and continued volatility.

Although this has no impact on cashflow, NAV is adjusted for the "losses" on that portfolio ie charged directly to reserves and included in the Statement of Comprehensive Income. The revaluation of swaps regarded as ineffective generated a £4.7m loss, (2009: £1.7m gain), which was included in profit.

Amended AM fee structure to benefit margin as portfolio scales up

The group announced changes to the fee arrangements under its original management agreement. Total management fees for the year to end December 2010 were £3.4m (2009 £2.5m). Under existing arrangements fees payable to the external asset managers were 1% pa of the value of the first £50m of property assets and 0.75% pa thereafter. At £500m of gross property assets, the annual management fee is approximately £3.875m. This has been reduced for gross assets above £500m, ie to 0.53% pa from £500-750m and 0.44% pa above £750m. The potential savings generated under these new arrangements is set out below.

Exhibit 9: Amended asset manager fee structure

Assets under Management	Old Fee	New Fee	Saving
£500m	£3.88m	£3.88m	£0.00m
£625m	£4.81m	£4.53m	£0.28m
£750m	£5.75m	£5.19m	£0.56m
£875m	£6.69m	£5.73m	£0.95m
£1,000m	£7.63m	£6.28m	£1.34m

Source: PHP RNS

An incentive fee is also payable, based on performance, equivalent to 15% of any excess above an 8% pa total return hurdle. No incentive payments have been made since 2007 and a deficit of £43m will need to be earned back before any further payments will be due. These generate consistent and highly visible cash flows, which partly explains why yields on primary care assets have not softened materially relative to other property classes.

Sensitivities: NHS reforms positive, but muddy waters

From PHP's perspective, the relevant reforms contained within the government's healthcare bill shift budget responsibility from Primary Care Trusts to GP consortia, with the former abolished over the next two years. The practical challenges associated with this kind of change are not inconsiderable, but the principle is not inherently negative for an investor in primary care property.

Despite any disruption or uncertainty due to the reforms, PHP reports continued strong demand for larger, purpose-built primary care centres from operators, and more institutional and corporate interest in investing in the sector. Both influences contribute to rising rents and capital values.

The group has set out its views (Exhibit 10) of the possible impact of reforms, ie an overview of the existing and future structures. This shows the mechanics for commissioning new primary care facilities shifting to GPs, themselves exposed to a new regime under which patients will have more choice regarding their GP and practice. This may positively encourage GPs to seek to upgrade the facilities from which they provide patient care, many of which remain unsatisfactory.

Exhibit 10: Possible impact of proposed NHS reforms on primary care

Current Structure	Post Health Bill?
Department of Health	**NHS Commissioning Board**
• Ultimate Health power including statutory responsibilities	• Independent body performing many DoH functions
• Funds Strategic Health authorities and PCT	• Pay GPs, set targets for, pay and regulate GP Consortiums
• All decisions ultimately responsibility of minister	• Senior management appointed by Health Secretary
Strategic Health Authorities	**GP Consortiums**
• 10 SHAs in England	• Groups of GPs who will take on many functions of PCTs
• Manage the health sector "managers"	• Expected to be 300, serving 20,000-500,000 patients each
• Monitor PCT activities and spending	• Will perform commissioning currently undertaken by PCTs
Primary Care Trusts	
• 150 PCTs managing 80% of NHS budget	
• Fund GPs, "buy" treatment from hospitals, dentists etc.	
• Run other healthcare services in their area	
GPs	**GPs**
• Run practices and employ practice nurses etc.	• Run practices and employ practice nurses etc.
• Have no say once patients leave surgery	• Patients allowed to choose GP for their convenience
• Cannot direct choice of hospital or services	• Idea that "funding follows the patient"
Hospitals	**Hospitals**
• Rely on income from PCTs buying "services"	• Will all become independent of NHS – allowed to fail
• Paid set amount per patient – national tariff	• Private operators allowed to take over NHS hospitals/services
• Some more efficient than others	• Set tariff for all NHS treatments

Source: PHP RNS

All group assets are used in the provision of primary care, which is the front line of delivery of NHS services. Spending on healthcare through the NHS has been ring fenced in real terms in recent budget announcements, with primary care activities set to be expanded as part of the changes to be brought in by the Health and Social Care Bill published in January 2011.

The NHS will retain ultimate responsibility for reimbursement of rents on existing properties. Some clarity is required with regard to lettings under the new regime. We have not seen any questions raised over the fairness of current rental levels, which are set independently on an open market basis and very little of the primary care estate was created under PFI or equivalent contracts.

As mentioned above, new buildings are currently being let at ERVs well above those achieved for older properties on review, in line with demands for higher specifications. This may also reflect the innate shortage of modern primary care facilities. All the quoted participants in this sector confirm pent up demand for new properties, which is supported by previous government investigations, demographics and the urgent need to maximise returns from the NHS budget.

Valuation: Progressive secure yield and asset backing

The prospective yield is a highly secure 5.4%, which we expect to grow over the next few years. A first 2011 dividend of 9p/share, payable 31 March 2011, is in line with our 18p/share FY11 forecast. The potential to accelerate revenues and dividends over the next few years hinges on strategic initiatives already underway, as well as restoration of a more normal environment for health sector investment post NHS reforms.

Stable and improving NAV profile

The inherent visibility and stability of revenues makes yield a more compelling investment argument than NAV growth, although PHP's portfolio has performed very steadily in recent years, in both actual and relative terms. Exhibit 11 shows the portfolio's performance relative to the IPD All Property Index and other asset classes. Both PHP's portfolio and the IPD measure have been consistent performers from an income perspective, at c 6% pa. The benefit of the group's highly secure, government backed income stream is, however, reflected by stable capital values, which have seen far lower volatility than other commercial real estate over the last few years.

Exhibit 11: Performance for year ended 31 December 2010

	1 year	3 years
PHP portfolio return	10.2%	4.9%
IPD All Property Index total return	15.2%	(2.5%)
Equities	14.5%	1.4%
Bonds	9.1%	7.7%

Source: PHP RNS

We forecast further growth in underlying values over the next two years, in both basic and EPRA (which excludes fair value adjustments for derivatives) measures of NAV/share.

Exhibit 12: EPRA NAV forecasts

	2009	2010	2011e	2012e
Net assets per Group Balance Sheet	£151.9m	£164.7m	£185.3m	£198.5m
Derivative interest rate swaps (net liability)	£20.1m	£30.9m	£30.9m	£30.9m
Basis rate swaps	£(0.1)m	-	-	-
EPRA NAV	£172.0m	£195.6m	£216.2m	£229.3m
Shares in issue	61.5m	62.8m	62.8m	62.8m
Basic net asset value per Share	247.2p	262.3p	295.1p	316.0p
EPRA NAV per Share	279.9p	311.5p	344.2p	365.1p

Source: PHP RNS/Edison forecasts

DCF appraisal adds 81p/share to NAV

The manager's DCF appraisal of the portfolio puts the year end value at £554m, equivalent to another 81p/share NAV enhancement. This assumes rental growth at 2.5% pa – which we have incorporated into our forecasts – a 7% pa discount rate and 1% growth in the residual values of the properties. We rely on the manager's analysis, as it incorporates full detail on leases and expiries.

Exhibit 13: DCF

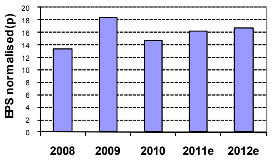
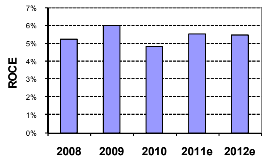
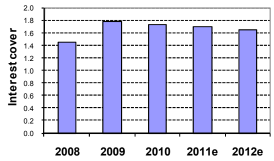
		Annual Rental Growth Assumption				
		0.0%	1.0%	2.0%	2.5%	3.0%
Discount Rate	6.0%	£541.4m	£570.4m	£602.8m	£620.4m	£639.0m
	6.5%	£511.3m	£538.0m	£567.8m	£584.0m	£601.0m
	7.0%	£485.3m	£510.7m	£539.0m	£554.3m	£570.5m
	7.5%	£461.1m	£485.3m	£512.2m	£526.8m	£542.1m
	8.0%	£438.6m	£461.7m	£487.3m	£501.1m	£515.7m

Source: PHP RNS

Exhibit 14: Financials

£'000s	2006	2007	2008	2009	2010	2011e	2012e
Year end 31 December	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	11,131	22,209	19,691	21,332	26,915	30,000	32,000
Cost of Sales	0	0	0	0	0	0	0
Gross Profit	11,131	22,209	19,691	21,332	26,915	30,000	32,000
EBITDA	8,843	14,412	15,125	18,034	21,871	24,985	26,574
Operating Profit (before GW and except.)	8,843	14,412	15,125	18,034	21,871	24,985	26,574
Intangible Amortisation	0	(5,551)	0	0	0	0	0
Exceptionals	0	0	0	0	0	0	0
Other	401	(151)	0	0	0	0	0
Operating Profit	8,843	8,861	15,125	18,034	21,871	24,985	26,574
Net valuation gain on property portfolio	14,997	1,107	(17,707)	1,615	22,790	33,521	34,667
Mark to market loss on derivatives	0	(2,808)	(10,655)	1,318	(4,714)	0	0
Net Interest	(5,437)	(10,844)	(10,502)	(10,181)	(12,722)	(14,800)	(16,100)
Profit Before Tax (norm)	3,406	3,568	4,623	7,853	9,149	10,185	10,474
Profit Before Tax (FRS 3)	18,403	(3,684)	(23,739)	10,786	27,225	43,706	45,141
Tax	(2,466)	20,485	(160)	0	(1,550)	0	0
Profit After Tax (norm)	940	24,053	4,463	7,853	7,599	10,185	10,474
Profit After Tax (FRS 3)	15,937	16,801	(23,899)	10,786	25,675	43,706	45,141
Average Number of Shares Outstanding (m)	22.7	28.3	33.6	40.6	62.2	62.8	62.8
EPS - normalised (p)	4.1	85.0	13.3	18.4	14.7	16.2	16.7
EPS - FRS 3 (p)	70.3	59.4	(71.2)	26.6	41.3	69.6	71.9
Dividend per share (p)	13.5	15.0	16.5	17.0	17.5	18.0	18.5
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	79.4	64.9	76.8	84.5	81.3	83.3	83.0
Operating Margin (before GW and except.) (%)	79.4	64.9	76.8	84.5	81.3	83.3	83.0
BALANCE SHEET							
Fixed Assets	205,188	290,095	320,133	349,786	472,739	523,500	523,500
Investment properties	199,569	282,495	316,862	341,890	469,290	520,000	540,000
Development properties	0	2,853	282	3,496	0	0	0
Net inv. in fin leases/ deriv. int. Rate swaps	5,619	4,747	2,989	4,400	3,449	3,500	3,500
Current Assets	5,018	7,561	2,987	2,263	3,555	4,400	4,550
Derivative interest rate swaps	0	0	454	63	555	0	0
Debtors	1,033	3,646	1,808	1,939	2,582	2,850	3,000
Cash	3,973	3,862	675	212	370	1,500	1,500
Current Liabilities	(5,325)	(11,281)	(23,597)	(20,321)	(32,684)	(32,600)	(33,100)
Creditors	(5,325)	(11,281)	(23,597)	(20,321)	(29,684)	(32,600)	(33,100)
Short term borrowings	0	0	0	0	(3,000)	0	0
Long Term Liabilities	(133,556)	(162,838)	(221,237)	(176,317)	(278,864)	(310,000)	(316,500)
Long term borrowings	(112,363)	(159,219)	(204,088)	(166,139)	(264,445)	(295,000)	(301,500)
Other long term liabilities	(21,193)	(3,619)	(17,149)	(10,178)	(14,419)	(15,000)	(15,000)
Net Assets	71,325	123,537	78,286	155,411	164,746	185,300	198,450
CASH FLOW							
Operating Cash Flow	8,785	12,743	15,799	15,951	22,801	36,345	30,075
Net Interest	(5,437)	(10,844)	(9,883)	(3,346)	(3,065)	(14,800)	(16,100)
Tax	(34)	(826)	0	0	0	0	0
Capex	0	0	0	0	0	0	0
Acquisitions/disposals	(20,405)	(81,565)	(49,311)	(23,413)	(70,907)	(37,000)	(9,000)
Financing	0	41,443	0	60,748	0	0	0
Dividends	(2,803)	(5,979)	(5,542)	(5,562)	(10,878)	(11,304)	(11,618)
Other (incl. non cash MTM shift in derivative vals)	0	0	0	(6,541)	(8,461)	0	0
Net Cash Flow	(19,894)	(45,028)	(48,937)	37,837	(70,510)	(26,760)	(6,643)
Opening net debt/(cash)	87,688	108,390	155,357	203,413	165,927	267,075	293,500
HP finance leases initiated	0	0	0	0	0	0	0
Other	(808)	(1,939)	881	(351)	(30,638)	335	143
Closing net debt/(cash)	108,390	155,357	203,413	165,927	267,075	293,500	300,000

Source: Edison Investment Research

Growth	Profitability	Balance sheet strength
		

Sensitivities evaluation	
Litigation/regulatory	◖
Pensions	○
Currency	○
Stock overhang	○
Interest rates	◖
Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	
EPS CAGR 08-12e	5.8	ROCE 11e	5.5	Gearing 11e	158
EPS CAGR 10-12e	6.5	Avg ROCE 08-12e	5.4	Interest cover 11e	1.7
EBITDA CAGR 08-12e	15.1	ROE 11e	5.5	CA/CL 11e	0.1
EBITDA CAGR 10-12e	10.2	Gross margin 11e	100	Stock turn 11e	N/A
Sales CAGR 08-12e	12.9	Operating margin 11e	83.3	Debtor days 11e	34.7
Sales CAGR 10-12e	9.0	Gr mgn / Op mgn 11e	1.2	Creditor days 11e	395

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Principal shareholders	%
Nexus Group Holdings	5.9
Legal & General Group PLC	4.0
Blackrock Inc	4.0
Aberdeen Asset Mgmt Grp	3.5
BT Pension Scheme Trustees	3.2

Forthcoming announcements/catalysts	Date *
AGM	June 2011
Interim results	August 2010
*Note: * = estimated*	

Management team
MD: Harry Hyman
A chartered accountant and member of the Association of Corporate Treasurers, Hyman has been PHP's MD since founding the group in 1994. He was previously with Baltic, involved in property development and structuring mezzanine funding. He is founder and MD of Nexus Structured Group Holdings, of which Nexus PHP Management is a subsidiary. Also a non-exec director of General Medical Clinics and other companies.
Deputy MD: Phil Holland
Prior to joining Nexus in January 2011, Phil held board positions with both public and private property investment, development and fund management companies. Position held Include FD of Natixis Capital Partners Limited and Atlas Estates Limited. Phil is a qualified chartered accountant (ACA) and holds an honours degree in accounting and finance from Lancaster University.
Non-exec chairman: Graeme Elliot
Appointed to the board in February 1996, Elliot was formerly executive vice chairman of Slough Estates, before which he held senior positions at Rio Tinto.