

Primary Health Properties (PHP LN) Ireland Capital Markets Day

Key Takeaway

PHP's CMD provided a detailed insight into its Irish portfolio where fundamentals remain highly attractive while PHP continues to grow towards a target of at least 10% of its portfolio by value (currently 6%) in the country. The demographic drivers for primary healthcare investment in Ireland are even more substantial than most other western countries, which should present PHP with further opportunity to invest in large, modern, purpose-built facilities.

Led by Managing Director, Harry Hyman, PHP's Irish Capital Markets Day provided detailed insight into the evolution of Primary Healthcare in Ireland with a tour of 3 assets (2 operating, 1 forward funded development). The Irish equivalent of the NHS, the HSE, has recognised the shortfall in Primary Care facilities and has committed to building 200 centres. This pivot towards Primary Care is a global phenomenon with the cost of treatment significantly less than expensive hospitals as primary healthcare acts with more preventative services rather than hospitals, which deal more with corrective procedures. It is hoped that modern Primary Care will also reduce the pressure on A&E departments. Like the NHS, the HSE has a network of GPs although healthcare in Ireland is largely provided privately and a typical GP visit costs €50-60 unless a patient has a Medical card (where income is €10-15k pa or the patient is <6yrs or >70yrs old). The HSE/Irish government has recognised the need for heavy investment in primary care to cope with future demographics with the Irish population growing rapidly (Eurostat: >20% growth by 2040) but also a population that is getting sicker and older with 62% overweight or obese and the >65yr old age bracket expected to at least double by 2051.

Demonstrated by the site visits, PHP's assets are modern, purpose-built and similar to Medical Office buildings in the US with the av. size of PHP's assets just below 40,000 sq ft. In each asset, the HSE (and other government agencies) have placed themselves as anchor tenants (currently 67% of PHP's Irish rent roll) meaning a government lease linked to inflation (CPI) with the typical lease length 25-30yrs (PHP Irish WAULT 22.4yrs). The remainder of the buildings are let to GPs (sometimes through a corporate provider e.g. Centric) and other services such as dentistry, audiology, pharmacies and a coffee shop. The new facilities have acted as a local consolidator bringing smaller GP surgeries under one-roof with 5-6 GPs, which creates more flexibility for the individual practitioner and a more comprehensive service to local patients. There is moderately more risk in a GP lease in Ireland as the rent is not reimbursed to the HSE (like it is in the UK) and there are 'soft breaks' in the HSE lease if certain conditions are met such as the no. of GPs moving below a minimum requirement. However mitigating factors to this include Primary Care being at the forefront of Irish government policy and no competing facilities in local areas that can provide the same level of service so we see an HSE break or significant GP vacancy as highly unlikely.

Ireland remains highly accretive to PHP with av. purchase yields c. 6% (UK portfolio NIY 4.9%) and with financing cheaper in Ireland, net income after all costs is 3% of acquisition price vs UK 1.2%. There is in-built inflation in >90% of the Irish rent roll, linked to CPI, which is recognised on a 5yrly basis (compounded), and although Irish leases allow negative movements in rents, inflation would have to be cumulatively negative over 5yrs to lead to a cut in rents (2018-2022 compounded CPI forecast CPI: 8.0%, Statista). PHP's Irish portfolio is valued at €106m with a total rent roll pf €6.3m and we expect PHP to be substantially towards Ireland being 10% of the portfolio's value (c. €150m) by the end of FY19. There could be a negative hit to the Irish economy by Brexit, particularly as exports to the UK tend to be in employee-intensive industries such as agriculture, but we think PHP has significantly less exposure to this than other commercial real estate providers as government healthcare spending isn't driven by short-medium term economic performance. We see the Irish portfolio as a continued driver to dividend growth (JEFe 3yr DPS CAGR 4.6%).

BUY

Bloomberg LSE: PHP LN

Price target 126.00p

Price 110.00p^

^Prior trading day's closing price unless otherwise noted.

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Company Description

Primary Health Properties

PHP is a UK REIT which specializes in investing in primary health care premises which are leased back to providers of primary health care, such as GPs and other associated healthcare users. Ninety percent of its tenant base is either directly or indirectly backed by the UK Government on rents which broadly track inflation. The portfolio consists of both investment properties and forward-funded developments.

Company Valuation/Risks

Primary Health Properties

PT based on adj. NAV. Risks: slower valuation growth.

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(Article 3(1)e and Article 7 of MAR)

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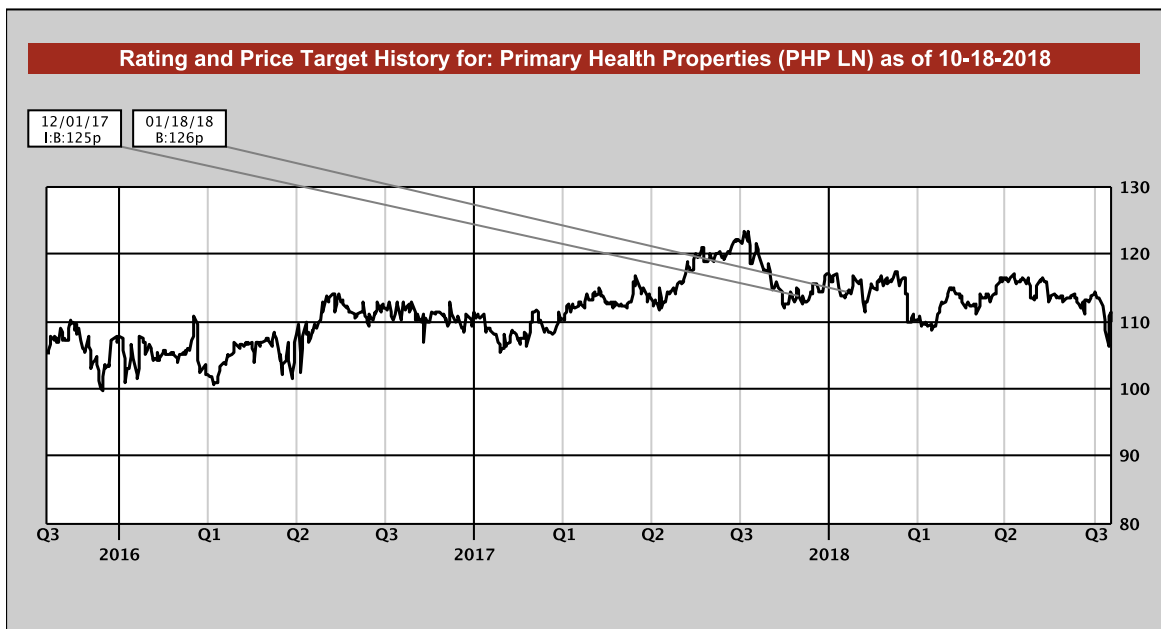
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			Count	Percent	Count	Percent
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