

Morning Notes 12 April 2011

Primary Health Properties (PHP)

Buy

Data

Price	322p
Target price	345p
Market cap	£202.5m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2010A	2011E	2012E	2013E
Net Op Inc (£m)	21.9	24.5	26.9	28.2
Adj PBT (£m)	9.1	11.6	11.6	12.0
Adj EPS (p)	14.7	18.4	18.5	19.1
EPS growth (%)	(20.1)	25.3	0.5	3.0
DPS (p)	17.5	18.0	18.5	19.0
PER (x)	22.0	17.6	17.5	17.0
Div yield (%)	5.4	5.6	5.7	5.9
NAV/H'line (x)	311.5	334.0	349.3	364.9
NAV/3net (x)	262.3	284.9	300.1	315.7
Prem/H'line (%)	3.9	(3.1)	(7.3)	(11.3)
Prem/3net (%)	23.4	13.6	7.9	2.5

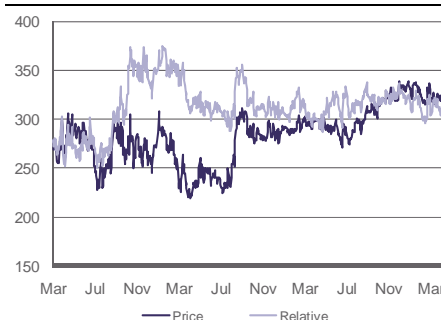
Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2011E Old	2011E New
Adj PBT (£m)	11.6	11.9
Adj EPS (p)	18.4	17.9
DPS (p)	18.0	18.0
Adj. NAV (p)	334.0	330.1

Performance

Source: Bloomberg



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Cashbox fundraising and quarterly update

PHP announces an 8.4% placing of equity raising net £15.6m. The small cashbox fundraising, along with further banking support, increases the company's potential investment reach and provides additional flexibility within the current funding structure, as well as firepower to target further acquisitions.

Key highlights

- Primary Health Properties (PHP) has announced it is to raise £16.1m (net £15.6m) via a small placing equal to 8.4% of issued shares. The issue price of 305.0p represents a discount of 5.3% to yesterday's closing price and a discount of 2.1% to EPRA NAV per share of 311.5p as reported at end-December 2010.

The issue proceeds are expected to be used to target further opportunistic acquisitions, as well as providing additional flexibility within PHP's current funding arrangements.

In addition, the company has provided an update for the first quarter (from 1 January 2011 to 12 April 2011), **the main detail of which contains:**

- Completed acquisitions and commitments totalling £16.6m
- Annualised rental growth from rent reviews completed tracking at 3.27% versus 3.22% in the prior year
- Annualised rent roll increased by +3.2%, or £0.9m, to £28.9m as result of acquisition activity and continued rent review process
- Approval of new £50m debt facility with Clydesdale Bank
- Health and Social Care Bill proposals ongoing by the government but expected to lead to medium-term demand for modern primary healthcare facilities
- Net mark-to-market liability on derivative portfolio reduced from £31m to £22m, principally because of rises in wholesale interest rates

Forecasts for 2011 post funding

- Adjusted NAV per share** reduces by 1.2% from 334p to 330p. The discount to the TERP of 321p is -2.7%.
- Adjusted EPS** reduced from 18.4p to 17.9p. **DPS unchanged at 18.0p for 5.6% yield.**

Conclusion:

PHP continues to build upon the progress made in 2010, with acquisitions and rent reviews adding additional strength to earnings and support for further rises to future dividends. The small cashbox fundraising, along with further banking support, increases the company's potential investment reach and ensures PHP has the necessary firepower to act on opportunities within this niche investment class.

Recommendation structure and distribution as at 12 April 2011		No	%
Buy	> +10% expected absolute price performance over 12 months	137	54
Hold	+/-10% range expected absolute price performance over 12 months	93	37
Sell	> -10% expected absolute price performance over 12 months	24	9

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Please note that the share price used in this note was the mid-market price at the close on 11 April 2011.

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