

Morning Notes

17 April 2012

Primary Health Properties[#] (PHP)

Buy

Data

Price	328p
Target price	345p
Market cap	£224m
Total drawn debt	£316.6m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2011A	2012E	2013E	2014E
Net Op Inc (£m)	25.1	27.7	30.3	30.9
Adj PBT (£m)	9.7	10.0	11.3	11.8
Adj EPS (p)	14.5	14.7	16.6	17.2
EPS growth (%)	(1.2)	1.0	12.9	3.9
DPS (p)	18.0	18.5	18.5	18.5
PER (x)	22.6	22.3	19.8	19.0
Div yield (%)	5.5	5.6	5.6	5.6
Adj NAV (p)	319	329	341	354
NAV/3net (p)	246	256	269	282
Disc/H'line (%)	2.9	(0.2)	(3.8)	(7.4)
Disc/3net (%)	33.2	28.0	22.1	16.5

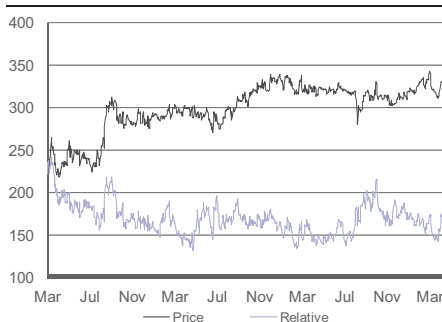
Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2012E Old	2012E New
Adj PBT (£m)	10.0	nc
Adj EPS (p)	14.7	nc
DPS (p)	18.5	nc
Adj NAV per share (p)	329	nc

Performance

Source: Bloomberg



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Q1 IMS; acquisition rate accelerates.

Acquisitions announced totalling £22m (including £17.5m in solicitors' hands), which we expect to be at or around a 6% initial yield. This is likely to add c£1.3m to the rent roll (or +1.9p of additional revenue per share), helping to bridge the uncovered dividend. Assuming these acquisitions complete shortly, this is a faster investment rate than our 2012 forecast. PHP remains 100% let and a core holding for investors seeking a 5.7% dividend yield. Buy.

Summary results

- **£17.5m of acquisitions** are in solicitors' hands and **£4.5m** has already completed in the quarter for a total of **£22m**.
- **£60m of undrawn debt** is available for further acquisitions, of which there is a strong pipeline of opportunities under review. Discussions are also ongoing with new debt lenders to secure further facilities to expand the portfolio.
- The £175m refinancing with RBS and Santander for four years completed (as per 3 April announcement) - only **£30m of debt now matures before 2014**.
- The annualised rent roll increased £0.3m in the three months since Dec 2011 to **£31.7m** at Mar 2012 (excl. commitments), due to rental growth and acquisitions.
- The annualised average rental growth, taken from a small sample, slowed marginally to 2.4% from 3.0% last year.
- The Health and Social Care Bill gained Royal Assent last month.
- An interim DPS of 9.25p for FY to Dec 2011 was paid on 5 April.

Comment

- **We are forecasting £50m of acquisitions for 2012** (vs £46m last year). Assuming transactions complete shortly, PHP is on track to achieve this rate of investment earlier than expected, considering the £22m of assets already complete or in solicitors' hands within the first three months.
- We expect acquisitions to be at c6% initial yield, implying an additional £1.3m (or +1.9p of additional revenue per share) from the £22m completed/in solicitors hand. This will help to **bridge the dividend cover**.
- The directors believe the initial yield is likely to have remained at or around 5.74% in the quarter. In our opinion, the valuation is conservative, considering the bond-like characteristics of the income stream. As a comparison the IPD initial yield for All Retail is on average 6.0%, and City Offices 5.1%.
- The **Health and Social Care Bill** continues to make progress, receiving Royal Assent on 27 March. Once established, the Act will end a long period of uncertainty and should **increase potential development projects for PHP**.

FY Dec 2012 forecasts unchanged

- Adjusted NAV 329p for a 1% prospective discount to NAV.
- Adjusted EPS 14.7p. FY **DPS 18.5p** for a **high 5.7% yield** and 0.8x cover.