

19 April 2012

## Primary Health Properties

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	Yield (%)	Basic NAV/share (p)	EPRA NAV/share (p)
12/10	26.9	9.1	14.7	17.5	5.3	262	311
12/11	30.7	9.7	14.6	18.0	5.5	247	319
12/12e	34.7	9.8	13.9	18.5	5.6	262	321
12/13e	38.0	10.8	14.5	19.0	5.8	267	324

Note: \*PBT and EPS are normalised, excluding intangible amortisation, unrealised valuation gains or losses and mark-to-market changes in swaps.

### Investment summary: IMS confirms new debt

PHP's IMS (2012 to date) confirmed that banking facilities have been refinanced, which puts funds in place for acquisition-led portfolio growth. A key element of the medium term outlook, the new Health and Social Care Bill, passed into statute at the end of March. Over time, we expect an increased number of approvals for new medical centres, although the impact will probably be felt during in FY13 as new NHS management structures are due to be implemented during 2012. The NHS Commissioning Board, a public sector body, will be responsible for the reimbursement of GP premises costs.

### Refinanced facilities and £60m of acquisition headroom

PHP has agreed a new four-year £175m banking facility (RBS and Santander). Total debt facilities are £384m, of which £316.6m is drawn. That provides £60m headroom net of £7.4m of existing commitments. We forecast acquisitions of £50m in 2012 and £35m in 2013 and discussions are underway with potential new lenders. The refinancing did not require PHP to break its £173m interest rate swap portfolio; the total mark-to-market liability of its derivative portfolio fell to c £41.8m at end Q1 (FY11: £49.5m) in line with rises in longer-term interest rates.

### Portfolio additions: £4.5m acquired, £17.5m in legals

The IMS confirmed a £3.6m acquisition of a new primary care centre, £0.9m for a pharmacy adjoining an existing asset and another £17.5m of deals in solicitors' hands. There is a pipeline of opportunities, both forward commitments for new assets and existing, fully let investments, at prices that should enhance rent roll and profitability. The directors believe that there has been no change in initial property yields in the period.

### Valuation: Yield outlook backed by potential EPS growth

We will review our forecasts at the mid-year, when there may be further progress on portfolio growth and funding, and NHS reforms will be a few months further down the track. In the meantime the shares offer a 5.6% prospective yield and potential for further growth on the back of EPS accretive acquisitions.

Price 328p  
Market Cap £224m

#### Share price graph



#### Share details

Code PHP  
Listing LSE  
Sector Real Estate (UK-REIT)  
Shares in issue 68.27m

#### Price

52 week High 341p Low 280p

#### Balance Sheet as at 31 December 2011

Net Debt/Equity (%) 179  
NAV per share (p) 301

#### Business

Primary Health Properties (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

	2011	2012e	2013e
P/E relative	212%	225%	238%
P/CF	9.1	7.0	9.1
EV/Sales	16.9	16.5	16.1
ROE	6%	5%	5%

#### Geography based on revenues (2012)

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

#### Analysts

Roger Leboff +44 (0)20 3077 5720  
Martyn King +44 (0)20 3077 5745  
property@edisoninvestmentresearch.co.uk

**Exhibit 1: Financials**

Note: For the purpose of our forecast we are assuming a notional new equity funding of £11m and £17m in 2012 and 2013 respectively, based on current share price. We also assume a continuation of existing scrip programme with a 5% uptake in 2012 and 2013.

Year end 31 December	£'000s	2010 IFRS	2011 IFRS	2012e IFRS	2013e IFRS
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>26,915</b>	<b>30,676</b>	<b>34,700</b>	<b>38,044</b>
Cost of Sales		0	0	0	0
Gross Profit		26,915	30,676	34,700	38,044
<b>EBITDA</b>		<b>21,871</b>	<b>25,117</b>	<b>28,793</b>	<b>31,803</b>
<b>Operating Profit (before GW and except)</b>		<b>21,871</b>	<b>25,117</b>	<b>28,793</b>	<b>31,803</b>
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		0	312	0	0
<b>Operating Profit</b>		<b>21,871</b>	<b>25,429</b>	<b>28,793</b>	<b>31,803</b>
Net valuation gain on property portfolio		22,790	10,584	5,000	5,000
Mark to market loss on derivatives		(4,714)	(7,947)	0	0
Net Interest		(12,722)	(15,417)	(19,000)	(21,000)
<b>Profit Before Tax (norm)</b>		<b>9,149</b>	<b>9,700</b>	<b>9,793</b>	<b>10,803</b>
<b>Profit Before Tax (FRS 3)</b>		<b>27,225</b>	<b>12,337</b>	<b>14,793</b>	<b>15,803</b>
Tax		(1,550)	5	0	0
<b>Profit After Tax (norm)</b>		<b>7,599</b>	<b>9,705</b>	<b>9,793</b>	<b>10,803</b>
<b>Profit After Tax (FRS 3)</b>		<b>25,675</b>	<b>12,342</b>	<b>14,793</b>	<b>15,803</b>
Average Number of Shares Outstanding (m)		62.2	66.6	70.7	74.5
EPS - normalised (p)		14.7	14.6	13.9	14.5
EPS - FRS 3 (p)		41.3	18.5	20.9	21.2
Dividend per share (p)		17.5	18.0	18.5	19.0
Gross Margin (%)		100.0	100.0	100.0	100.0
EBITDA Margin (%)		81.3	81.9	83.0	83.6
Operating Margin (before GW and except) (%)		81.3	81.9	83.0	83.6
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>472,739</b>	<b>528,679</b>	<b>583,100</b>	<b>623,100</b>
Investment properties		469,290	525,586	580,000	620,000
Development properties		0	0	0	0
Net inv. in fin leases/ deriv. int. Rate swaps		3,449	3,093	3,100	3,100
<b>Current Assets</b>		<b>3,555</b>	<b>2,740</b>	<b>4,050</b>	<b>6,350</b>
Derivative interest rate swaps		555	0	0	0
Debtors		2,582	2,633	3,000	3,300
Cash		370	77	1,000	3,000
<b>Current Liabilities</b>		<b>(33,241)</b>	<b>(36,913)</b>	<b>(35,100)</b>	<b>(33,350)</b>
Creditors		(29,684)	(36,321)	(34,100)	(32,100)
Short term borrowings		(3,557)	(592)	(1,000)	(1,250)
<b>Long Term Liabilities</b>		<b>(278,307)</b>	<b>(326,386)</b>	<b>(364,000)</b>	<b>(390,000)</b>
Long term borrowings		(263,888)	(300,747)	(340,000)	(368,000)
Other long term liabilities		(14,419)	(25,639)	(24,000)	(22,000)
<b>Net Assets</b>		<b>164,746</b>	<b>168,120</b>	<b>188,050</b>	<b>206,100</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>22,801</b>	<b>24,025</b>	<b>33,294</b>	<b>26,815</b>
Net Interest		(12,722)	(15,417)	(19,000)	(21,000)
Tax		0	0	0	0
Capex		0	0	(1,500)	0
Acquisitions/disposals		(70,761)	(44,589)	(50,000)	(35,000)
Financing		0	15,605	11,000	17,000
Dividends		(9,825)	(11,199)	(12,629)	(13,952)
Other (incl. non cash MTM shift in derivative vals)		0	(2,880)	0	0
Net Cash Flow		(70,507)	(34,455)	(38,835)	(26,137)
<b>Opening net debt/(cash)</b>		<b>165,927</b>	<b>267,075</b>	<b>301,262</b>	<b>340,000</b>
HP finance leases initiated		0	0	0	0
Other		(30,641)	268	97	(113)
<b>Closing net debt/(cash)</b>		<b>267,075</b>	<b>301,262</b>	<b>340,000</b>	<b>366,250</b>

Source: Edison Investment Research, company accounts

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ [www.edisoninvestmentresearch.co.uk](http://www.edisoninvestmentresearch.co.uk)  
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