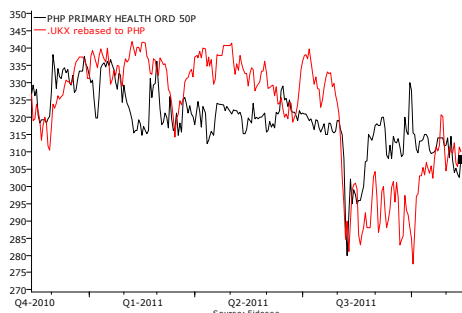


Primary Health Properties 307.75p
FLASH: Sound IMS. Rent rises remain 3.2%

15 November 2011



12m High: 338p
12m Low: 280p
Market Cap: £210m
Shares in Issue: 68.2m

NAV/Share: 318p on EPRA basis
 251p allowing for book loss on "Mark to Market"
Gearing: LTV 55.6%
Interest Cover: 2.5X

EPIC Code: PHP
Sector: Real Estate
Market: London Full List
Brokers: Numis Securities/Peel Hunt
PR: Pelham Bell Pottinger +44 (0)20 7861 3232
Website: www.phpgroup.co.uk

Description: PHP lets out GP surgeries to GP partnerships on long term leases. The rent GPs pay is reimbursed by the public sector.

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Tel: +44 (0)20 7929 3399
Email: research@hardmanandco.com

This morning's Interim Management Statement contains few surprises and reinforces Primary Health Properties' reputation for sound, predictable forward movement. Key points are:

- PHP confirms a further £75m of debt being refinanced via a 7 year interest only facility from Aviva. This facility has received credit approval, but has not yet been signed. The rate of interest has not been released, but PHP says "as gilt rates are at historic lows, this may have a positive impact on the eventual rate at which the new Aviva loan is drawn".
- This brings to £125m of the total borrowings of £277.8m that has been refinanced – 45% of the total. The refinancing issue is therefore being resolved in stages, and is probably far enough through now for it to cease to be an issue in the eyes of most investors.
- PHP is developing a spread of maturity dates and a spread of lenders for its loan portfolio. We believe this to be a good defensive strategy.
- The mark to market liability on the interest rate swap portfolio, non cash, has increased from £27m at the Interim stage to £46m. (67p/ share) This was expected given recent trends, and follows the pattern from other quoted companies with mark to market derivative portfolios. Falling rates, given the refinancing, are of course a positive on balance.
- Rent reviews of an annualised rate of 3.2% are being achieved, the same as 2010. It is almost identical to the three year inflation rate, and is mid way between the figures being achieved by the two other major quoted medical property companies.
- Initial property yields "remain stable at 5.75%".

Current year dividend yield is 5.8%, which compares very well with anything else available to investors – particularly as PHP has an unbroken record of dividend increases since its flotation, and has huge defensive qualities. We remain enthusiastic about the sub-sector (see our October Monthly) and specifically PHP. Note 2012E reflects slightly higher funding costs.

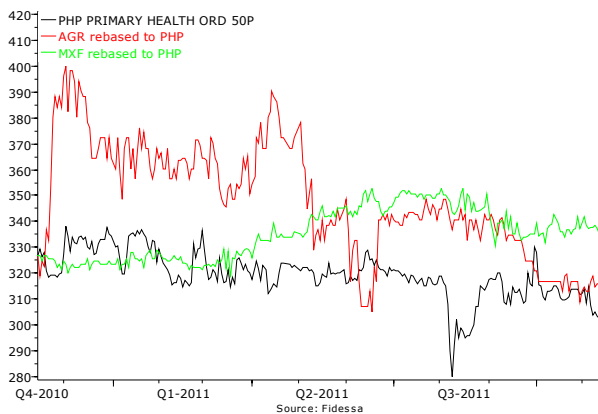
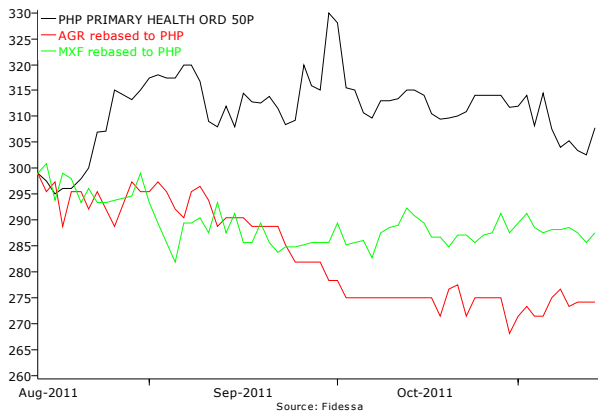
Now funding issues are effectively "nailed down", the income stream, which is a pseudo-inflation tracker, can be seen as just that: an income stream – virtually fully distributed as dividends. There is no covenant or occupancy risk and funding is secure. This is a better return than UK Government index linked gilts.

Y/E	Group Revenue	Adjusted Pre-Tax Profit*	Adjusted EPS #	P/E ratio	Dividend #	Yield
December	£m	£m	p.		p.	%
2009A	21.3	7.3	18.4	16.7	17.00	5.5
2010A	26.9	9.1	14.7	20.9	17.50	5.7
2011E	30.7	11.2	16.8	18.3	18.00	5.8
2012E	31.8	11.3	16.4	18.8	18.50	6.0

* EPRA basis # ex-rights adjusted

Medical Property Companies – Share Price Performance

On a three month basis Primary Health Properties has slightly outperformed the two comparable quoted companies, Assura (AGR.L) and MediX Fund (MXF.L). On a twelve month view the three shares have performed almost identically. On a five year view Assura shares reflect the more serious problems the company experienced in the 2008 financial crisis. The PHP share price tends, out of the three, to reflect NAV more closely.



Note the Hardman & Co sector review published “The Monthly October 2011”.

Primary Health Properties

15 November 2011

Management	Major Shareholders												
<p>Chairman: Graeme Elliott</p> <p>Managing Director: Harry Hyman</p> <p>Finance Director & Deputy Managing Director: Phil Holland</p> <p>Property Management: A team of eight based in Woking.</p>	<table> <tr> <td>Harry Hyman (inc. Nexus Group)</td> <td>5.9%</td> </tr> <tr> <td>Blackrock</td> <td>4.0%</td> </tr> <tr> <td>Legal & General</td> <td>3.9%</td> </tr> <tr> <td>Aberdeen Asset Management</td> <td>3.5%</td> </tr> <tr> <td>BT Pension Scheme Trustees</td> <td>3.2%</td> </tr> <tr> <td>.</td> <td></td> </tr> </table>	Harry Hyman (inc. Nexus Group)	5.9%	Blackrock	4.0%	Legal & General	3.9%	Aberdeen Asset Management	3.5%	BT Pension Scheme Trustees	3.2%	.	
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Aberdeen Asset Management	3.5%												
BT Pension Scheme Trustees	3.2%												
.													
Key Dates	Key Milestones												
<p>Full Year Results: February/March 2012</p> <p>AGM: April 2012</p>	<p>1994 Business model put forward by Harry Hyman</p> <p>1995 Purchase of small portfolio and incorporation</p> <p>1996 Floated on AIM, shortly afterwards upgrading to the Official List.</p> <p>2002 Wanless Review proposing reforms in the NHS</p> <p>2007 PHP converts to REIT status Darzi Interim Report launching the reform of public primary care</p> <p>2008 (May) Largest single acquisition, Port Talbot (£15.6m) (June) Darzi Review expanding on initial reform</p> <p>2009 (March) £3m capital raising at 220p (September) £60m equity capital raising at 230p, comprising placing and 1-for-5 rights issue.</p> <p>2010 Purchase of CareCapital property portfolio for £24m. Purchase of Health Investments Ltd £39m portfolio - £3m placing at 290p as part consideration</p>												

Primary Health Properties

15 November 2011

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