

14 December 2012

Property - Healthcare

Primary Healthcare Properties* - £64.6m portfolio acquisition improves dividend cover

- PHP has acquired the entire share capital of Apollo Medical Partners (AMP), for a total cost of £64.6m, reflecting a net initial yield of 5.9%. AMP is an investor in primary care and pharmacy properties with a UK wide portfolio.
- **Consideration:** PHP will pay £10.2m (including £0.6m transaction costs), comprising £6m cash, of which £1.8m will be deferred until the three construction assets complete. PHP will also issue 1.231m new shares to the vendors, subject to a 12 month lock-up, increasing shares in issue to 76m. PHP will assume £49.8m of existing fixed rate, long-term debt (18 years to maturity), but will look to re-set or refinance the facility in due course at a more attractive interest rate. Management suggests it should be able to achieve a cost of funding of c.4% based on current market rates and comments that the agreed acquisition price includes an allowance for part of any potential cost of resetting the debt.
- **Impact on estimates:** The acquisition underpins our 2013 revenue and dividend cover estimates which had factored in £70m of acquisitions. However, there will be a 3p negative impact to NAV reflecting an independent valuation of the portfolio which is £2.3m lower than the acquisition cost. Adjusting for this, the EPRA NAV as at 30 June is 311.9p. Our forecast for Dec 12 EPRA NAV reduces to 313p from 316p, and for Dec 14 from 341p to 338p. Dividend cover improves from 60 to 67% in 2013 rising to c.86% by 2014.
- **Portfolio:** The deal will add 14 new assets to PHP's portfolio, of which 11 are fully occupied and three are under construction with expected completion dates in February and August 2013. The acquired assets have a weighted average lease length of 18 years and 92% of income is derived directly or indirectly from the government. The rent roll will increase by £3.8m to £38.9m once all assets are complete and increase the number of properties owned by PHP to 183. These have a total value of £643.3m (including commitments).
- **Pipeline and firepower:** PHP has also signed an agreement with a sister company of AMP for access to a pipeline of future projects. Following the deal, total debt facilities available will be £508.5m, of which £399.9m has been drawn or committed, leaving c£100 m of investment firepower for future deals. Once deployed, this should improve dividend cover further.
- **Numis view:** The deal utilises the retail bond proceeds and underpins our estimates of improved dividend cover of 67%. Whilst the deal reduces NAV by 3p initially, management comments that there are a number of opportunities to add to the rent roll and secure increases in valuation in the future. We are also encouraged that it brings a new strategic relationship for PHP which should provide access to a pipeline of future deals supporting management's aim of returning to full dividend cover "at the earliest opportunity". The shares currently trade on a 9% premium to our Dec 13 EPRA NAV, and yield a prospective 5.5%.

* Denotes that this company is a corporate broking client of Numis Securities.

Note: all prices, NAVs and discounts as at close of business at 13 December 2012 unless otherwise stated.

The research analyst who prepared this report was Colette Ord.

For UK regulatory purposes, this is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Non independent research is not subject under MiFID to any prohibition on dealing ahead of the dissemination of investment research. However, Numis is required by the FSA to have policies in place to manage the conflicts of interest which may arise in its production, which include preventing dealing ahead.



Marketing Communication Investment Companies Daily News

14 December 2012

Neither past performance nor forecasts are a reliable indicator of future results.

Important disclosure information relating to Numis Securities Limited may be found at <http://www.numiscorp.com/x/us/regulatory.html>