

14 May 2020

## Real Estate

<b>52-WEEK HIGH</b>	<b>168p</b>
<b>52-WEEK LOW</b>	<b>120p</b>
<b>PRICE</b>	<b>155p</b>
<b>MARKET CAP MLN</b>	<b>£1,890.64</b>

## Share Price



## Major Shareholders

Blackrock inc.	7.2%
Investec Wealth and Investment	5.0%
CCLA Investment management	4.9%
Shares in issue	1,216,969,313
Avg Three-month trading volume	4,906,117
Primary Index	MAIN
Next Key Announcement	July 2020

## Company Information

**Address:** Greener House, Haymarket, London SW1Y 4RF  
**Website:** [www.phpgroup.co.uk](http://www.phpgroup.co.uk)

## Analyst Details

Ed Stacey  
[ed.stacey@proactiveinvestors.com](mailto:ed.stacey@proactiveinvestors.com)

## Primary Health Properties - Keeps delivering for investors

### Portfolio acquisition, and other news

Primary Health Properties PLC (LON:PHP) recently announced the acquisition of a portfolio of 20 medical centres across England and Wales for a total of £47.1mln before costs, and a conditional contract to acquire two further medical centres for £6.9mln. These are primary healthcare facilities, with 91% of rental income being government-backed, in line with the existing property portfolio.

### Other recent news

Within the news release on 11 May, PHP also disclosed that 98% of all UK rents for the second quarter have been collected, and 97% of all rents in Ireland up to 1 April. We expect PHP to continue to benefit from what is essentially uninterrupted rent collection. Additionally, on 1 April, PHP released a positive trading update, including the disclosure that three projects in Ireland, with a total development cost of €48.3mln, had reached project completion or near completion. This represents a significant de-risking of the development pipeline. In the same release, the company announced that it would maintain its progressive dividend policy, at a run-rate of 1.475p per quarter.

Finally, PHP also disclosed that its rent reviews during the first quarter of 2020 led to an average annualised increase of 2.4%. This compares with 1.9% annualised uplift during full-year (FY) 2019 and represents a continuation of a sequence of improving rent reviews.

### Investment performance

The shares have outperformed the UK market year-to-date, having already strongly outperformed during FY 2019; however, we argue that the current valuation still offers compelling returns for investors, driven by the continued performance of the underlying asset portfolio. Factors supporting this thesis include:

- Dividend growth every year since inception – 23 years.
- 90% of rents covered by government national health bodies of the UK and Ireland. This supports 99.5% occupancy rates and minimal tenant defaults or similar unplanned costs.
- The lowest cost ratio (costs / rental income) in the whole of the UK REIT (real estate investment trust) space.
- Headroom to continue growing the portfolio of health centres in the UK and Ireland.

On p2 we provide an overview of how PHP's portfolio performance drives returns for shareholders.

Year end Dec 31	2018	2019	Current	2021
<b>Portfolio value (£mln)</b>	1,502.9	2,413.0	2,555.0	2,725.0
<b>Net rental income (£mln)</b>	76.4	115.7	130.5	138.6
<b>EPRA earnings (£mln)</b>	36.8	59.7	73.5	77.4
<b>EPRA EPS (GBp)</b>	5.2	5.4	5.9	6.2
<b>DPS (GBp)</b>	5.40	5.60	5.90	6.10
<b>EPRA NAV / share (GPp)</b>	105.1	107.9	109.9	113.4
<b>Gearing (LTV%)</b>	44.8	44.2	46.8	48.6

**Harry Hyman, managing director.** Hyman has extensive experience in investing in the primary healthcare sector, having developed PHP's business from inception more than 20 years ago. He is a graduate of Cambridge University and a fellow of the Institute of Chartered Accountants in England & Wales.

**Richard Howell, finance director.** Howell is a chartered accountant and has more than 20 years' experience working with London-listed commercial property companies, including Brixton PLC and LondonMetric Property PLC.

## Portfolio performance and share price performance

Over the past five years, PHP has delivered a total shareholder return of 78% (to 12 May, 2020) or 12.2% per annum over the five years. Total shareholder return is defined as dividends + capital gains.

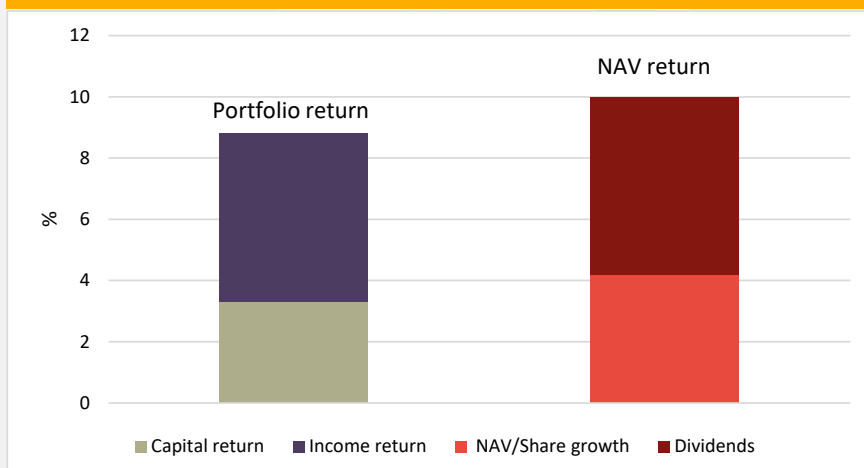
The total shareholder return closely reflects the underlying performance of the asset portfolio. The following chart shows two measures of portfolio performance:

The portfolio return is the investment return on the weighted average gross assets, in terms of both rental income and capital gains.

Net asset value (NAV) return is the percentage annual increase in NAV per share together with the dividends paid as a percentage of NAV. If the share price were always valued at 1x the NAV per share, then NAV return would be the same as total shareholder return.

The chart shows the average annual performance over the last 5 years.

### PHP 5 year average return - Portfolio return and NAV return



Source: Proactive Research

Going forward we believe it is realistic to expect a continuation of similar portfolio performance – broadly 5% income return and 3% capital gain, driving the continued growth in the dividend.

In the current financial markets, we believe that investors will find it increasingly hard to find investments that offer secure income with growth and an attractive income yield as a starting point. As investors seek secure yields, this could drive the PHP valuation multiples higher.

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#### London

+44 207 989 0813  
The Business Centre  
6 Wool House  
74 Back Church Lane  
London E1 1AF

#### New York

+1 347 449 0879  
767 Third Avenue  
Floor 17  
New York  
NY 10017

#### Vancouver

+1 604-688-8158  
Suite 965  
1055 West Georgia Street  
Vancouver, B.C. Canada  
V6E 3P3

#### Sydney

+61 (0) 2 9280 0700  
Suite 102  
55 Mountain Street  
Ultimo, NSW 2007