Primary Health Properties

Company Update

23 April 2019 15:38 BST

Price: 130.9p
Estimated NAV: 106.9p
Market Cap: £1.5bn
Premium: 22.0%
Yield: 4.3%

Ticker: PHP LN

Website: www.phpgroup.co.uk

(Current share price(s) timed at 10:00AM on 23 Apr 19)

(NAV as at 31 Dec 19)

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Primed for further dividend growth

2018 was another strong year, with double-digit earnings growth and a positive valuation uplift driving an EPRA NAV total return of 9.7%. 2019 has also started well, with Primary Health Properties completing a transformational merger, facilitating increased scale at a more favourable cost than buying the assets direct. Importantly, we believe this growth has come without diluting the quality of the asset base and with the prospect of delivering attractive synergies. Compared with a more uncertain backdrop for commercial real estate, we believe that PHP is well-placed in a niche and growing real estate sub-sector, which benefits from positive occupier and investment market dynamics. Combined with management actions to drive returns, we believe PHP remains primed for further dividend growth (+3.6% 3 yr CAGR) and attractive relative NAV total returns of 8.1% pa over the next three years.

- **Transformational merger:** 2019 has started on a strong note, with PHP completing an all-share merger with Medicx Fund (MXF), bringing together two high quality portfolios and increasing the market cap to c.£1.5bn. In summary, we believe the deal was an excellent result for both sets of shareholders and created a more liquid vehicle offering one of the most attractive low cost income profiles among the listed REIT universe. The deal completed at a price that provided an attractive uplift in share price (c.14%) and dividends (+13.5%) for MXF holders. For PHP shareholders, the deal adds significant portfolio scale without incurring c.£40m of Stamp Duty, which would have been paid to acquire the assets directly. Moreover, the combined business will result in immediate, significant cost savings of c.£4.0m pa, reflecting lower external management fees, as well as head office and PLC synergies. Over the medium term, we would also expect the enlarged balance sheet to facilitate access to more competitively priced funding.

- **Niche and growing real estate sector:** PHP remains one of the few ways to access the growing primary health property market, offering exposure to long leases backed predominantly (91%) by a government covenant. PHP's portfolio is the largest by value in the listed universe, comprising 479 properties. Despite increasing its asset base by 35% following the merger with MXF, PHP's portfolio still represents just 5% of the addressable market, providing scope to increase market share.

- **Positive outlook:** We believe that the enlarged PHP is well placed to continue to deliver attractive shareholder returns in the near term. The primary care real estate sector benefits from strong occupier and investment market dynamics, underpinned by cross-party political support. Our estimates suggest that PHP is capable of delivering a growing dividend with 3-year NAV total return of 8.1% pa. This could be surpassed if management achieves a better net margin on acquisitions or debt refinancing. This compares favourably to average All Property total returns of 3.6% to 2021, based on Investment Property Forum (IPF) consensus forecasts.

Overview

22 years of dividend growth

Primary Health Properties (PHP) is an externally-managed REIT with an impressive 22-year track record of dividend growth. The company first listed on AIM in 1996, moving to the Main Market of the London SE in 1998. It became the UK's first dedicated healthcare REIT in 2007 and is now a FTSE 250 constituent with a £1.48bn market cap.

Business model

Simple business model with scope to increase market share

PHP is one of the lowest cost listed REITs in the UK. It specialises in the ownership of freeholds or long leasehold interests in purpose-built primary healthcare facilities predominantly in the UK, with up to 10% in Ireland. The majority of these are GP surgeries, with other properties let to NHS/Irish HSE organisations, pharmacies and dentists. Key portfolio characteristics include long-term leases, backed by a secure covenant, with UK rental income funded directly or indirectly by a government body. PHP does not develop assets, but partners with a number of specialist developers in the sector. It commits to fund new assets, on a pre-let basis, and acquires them once constructed. It also invests in completed let properties acquired from a range of investors.

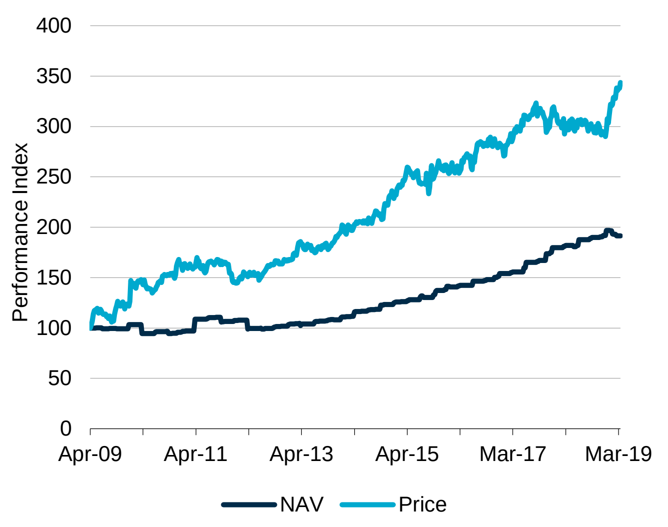
Acquisitions are financed with a mix of equity and debt, the proportions of which are kept under regular review to optimise risk-adjusted returns to shareholders over the long term. Reflecting the deep debt markets for the asset class, PHP has both traditional bank funding and has accessed the debt capital markets via a mix of unsecured retail and convertible bonds and secured corporate bonds. Facilities are well spread with a range of providers and maturities.

Asset backed secure yield

Exposure to long leases backed by government covenant

Following the transformational merger with Medicx that completed in March, PHP is now the largest of the two London-listed healthcare REITs offering exposure to the primary health property sector. The market continues, rightly in our view, to assign a premium rating to PHP's shares, reflecting the quality of the income stream (WAULT 13.2 years) and defensive nature of the asset base. We would expect this to remain the case, given the favourable market dynamics, flexible balance sheet and attractive prospective dividend yield on offer of 4.3%.

Figure 1: PHP 10-Year Absolute Price & NAV Performance



Source: Company & Numis Securities Research

Figure 2: PHP 10-Year Discount History

Source: Company & Numis Securities Research

Final results summary

9.7% EPRA NAV total return in 2018

2018 was another strong year of performance for PHP featuring an 18.7% increase in earnings, an EPRA NAV total return of 9.7% and PHP's 22nd consecutive year of dividend growth. Moreover, the company reached a number of milestones, including entry into the FTSE 250. It was also announced winner of the *"highest 10 year Risk Adjusted Absolute Return"* by the MSCI investment property forum.

Strong earnings growth

Earnings increase driven by organic rental growth and acquisitions

EPRA earnings rose 18.7% to £36.8m (5.2p). Key drivers included a 7.2% increase in net rental income to £76.4m, reflecting the benefit of acquisitions and developments completed in 2018 and prior periods, as well as continued positive momentum in rental growth. Acquisitions added £3.7m, completed developments added £0.7m and rent reviews and asset management contributed a further £0.7m. During 2018, PHP concluded and documented 187 rent reviews with a combined rental value of £23.6m, resulting in an uplift of £1.1m or 4.7%, which equates to 1.4% pa, continuing the positive trend in rental growth over the last two years.

22nd year of dividend growth

Impressive dividend track record continues

PHP paid dividends totalling 5.4p (£36.6m) in 2018, fully covered by EPRA earnings and representing an increase of 2.7% over the prior year. This marked the 22nd consecutive year of growth. The board declared a first interim dividend of 1.4p for the current financial year ending 31 December 2019, equivalent to 5.6p on an annualised basis representing a prospective yield of 4.3%.

Portfolio activity and pipeline

Enlarged pipeline of opportunities

In 2018, PHP invested a total of £106.2m into eight new assets, including two UK properties and six in Ireland. The acquisitions added £5.9m to annual contracted rent. A further £4.4m was invested in 16 asset management projects. As at 31 December, the pipeline of potential acquisitions in the UK and Ireland totalled £190m, which combined with MXF's pipeline of £144m, provides significant opportunities for further accretive growth. Group LTV at 31 December was 44.8%, with a blended cost of debt of 3.9% and interest cover of 2.6x. At the year end, PHP had undrawn facilities of £190.6m available for future investments.

Portfolio outperformance

Property outperformance versus general commercial

As at 31 December, the portfolio of 313 assets was valued at £1.5bn, representing an uplift of 2.5% (£36.1m) over the year. The positive impact of asset management and rental growth accounted for 60% of the uplift. In addition, the net initial yield contracted 6bps to 4.85% with the true equivalent yield now 4.99% (-10bps), reflecting the strong investment market for the asset class. The valuation uplift, combined with the growing income, resulted in a total property return of 8.0% (5.3% income, 2.7% capital), outperforming the MSCI UK Monthly Property Index by 70bps over the same time period. EPRA NAV increased by 4.4% over the year to 105.1p. Including dividends, NAV total return was 9.7%.

Positive Outlook

Attractive total return potential

We believe that the enlarged PHP is well placed to continue to deliver attractive shareholder returns in the near term. The primary care real estate sector benefits from strong occupier and investment market dynamics, underpinned by cross-party political support. Our estimates suggest that PHP is capable of delivering 3-year NAV total return CAGR of 8.1%. This could be surpassed if management achieves a better net margin on acquisitions or refinancing.

Transformational Merger

Merger of PHP & MXF completed 14 March

On 24 January, the boards of Primary Health Properties (PHP) and Medicx Fund (MXF) announced that they had agreed the terms of a recommended all-share merger. The transaction completed on 14 March, bringing together two high quality portfolios and increasing the market cap of PHP to £1.47bn. In summary, we believe the deal was an excellent result for both sets of shareholders and created a more liquid vehicle offering one of the most attractive low cost, income profiles amongst the listed REIT universe.

Attractive deal for both sets of shareholders

In our view, the deal completed at a price that provided an attractive uplift in share price (c.14%) and dividends (+13.5%) for MXF holders. For PHP shareholders, the deal adds significant portfolio scale at a more favourable price than could have been achieved in the direct market. If PHP had acquired assets directly, it would have incurred a stamp duty liability of approximately £40m. Moreover, the combined business will result in immediate, significant cost savings of c.£4.0m pa, reflecting lower external management fees as well as head office and PLC synergies. Over the medium term, we would also expect the enlarged balance sheet to facilitate access to more competitively priced funding.

MXF shares de-rated sharply in 2018, providing an opportunity for the board of PHP

Background

As the chart below illustrates, MXF shares saw a sharp de-rating in 2018. In part, this reflected the 42% dividend cut, which was announced in May and became effective from 1 October 2018. We believe that MXF's higher gearing and fee base also weighed on the shares. In particular, MedicX became less attractive to many investors because the impact of the higher cost base was amplified through the need to publish a KID (its "all-in" charges shown in the KID were 8.44% pa). In contrast, PHP is not covered by PRIIPs, and does not produce a KID, and therefore has no costs as far as wealth managers' cost disclosures are concerned.

Figure 3: MXF – 10-year discount history

Source: Datstreamy & Numis Securities Research

The rare appearance of a discount to NAV and rebasing of the dividend to a more sustainable level made MedicX an attractive target for PHP. It offered the chance to add significant scale without diluting the quality of the asset base.

Key deal terms

Merger offered strong strategic, operational and financial rationale

The merger involved the issue of 341m new PHP shares to MXF holders, reflecting a ratio of 0.77 new PHP shares for each MXF share held. The merger valued each MXF share at 88.7p (£329.9m market cap), representing a 14.3% premium to the closing share price on 23 January and an 8.5% premium to the EPRA NAV at 30 September. MXF shareholders benefitted from a 13.5% dividend uplift based on PHP's quarterly dividend of 1.4p (5.6p pa, 4.3% yield), as well as an accelerated dividend cycle. PHP pays its quarterly dividends approximately one month before MXF.

Sizeable cost synergies

As part of the transaction, a number of amendments were made to the advisory agreement with Nexus, the external manager of PHP. Nexus will charge a property management fee at 0.225% pa on the MXF portfolio for a period of five years, after which PHP's marginal property fee scale will apply. Nexus will also contribute £2.5m to PHP, payable over five years (£0.5m pa) to partly compensate for the cost of terminating the external management agreement of MXF. Overall, the deal results in £4.0m pa of cost savings and will result in an EPRA cost ratio of c.11% (excluding perf fee), one of the lowest in the listed REIT sector.

£2.3bn portfolio of high quality assets

Complementary portfolios

The following table illustrates the complementary nature of the two portfolios. The deal increased PHP's asset base by 35%, creating the largest portfolio of primary care facilities (by value) in the UK and Ireland at £2.3bn. Importantly, this growth has come with no dilution of quality in the asset base, in our view.

Table 1: PHP/MXF Pro-Forma Portfolio

	PHP	MXF	Pro-Forma
Total No. of properties	313	166	479
No. of Irish assets	8	5	13
Portfolio value (£bn)	1.5	0.8	2.3
Contracted rent roll (£m)	79	44	123
Net Initial Yield (%)	4.85	4.85	4.85
Average lot size (£m)	4.8	4.8	4.8
Average WAULT (Yrs)	13.1	14.2	13.5
Occupancy(%)	99.8	99	99.5
Govt. backed rent (%)	91	90	91

Combined Source: Company & Numis Securities Research

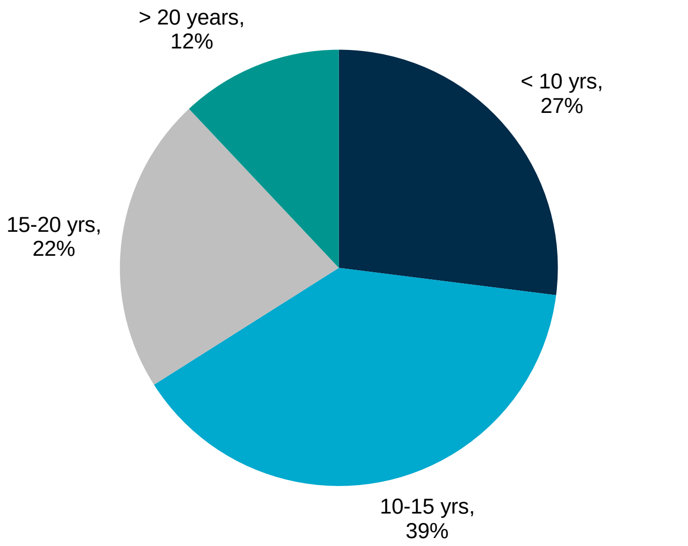
Modern, fit for purpose asset base

We note that PHP has maintained the average lot size at £4.8m, a key quality metric cited by management. Both PHP and MXF have had a clear property strategy to acquire, and forward fund, larger assets, which are capable of delivering a broad range of GP and NHS services, ensuring the assets stay fit for purpose when compared with smaller, older stock. In contrast, we note that the listed peer AGR has been more active in acquiring portfolios that contain smaller lot size assets. As at 30 September, the Assura portfolio of 556 assets was valued at £1.82bn, implying an average lot size of £3.3m.

Attractive rent review profile maintained

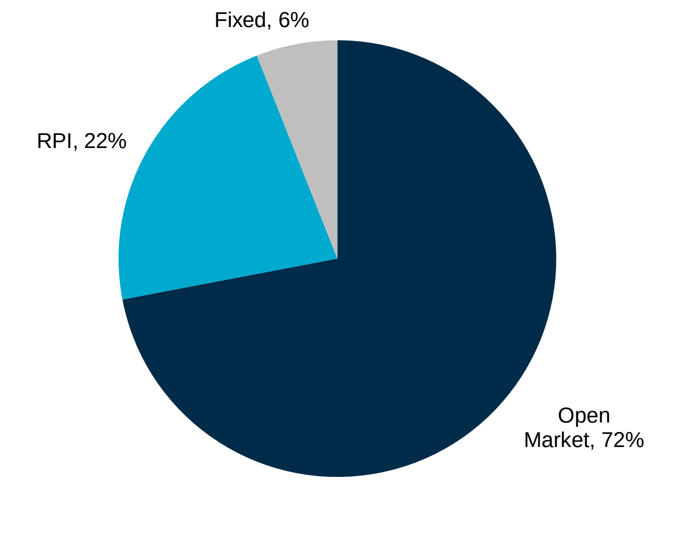
The combined portfolio also retains an attractive rent review profile with 28% of rents subject to RPI or fixed uplifts and the remainder on an open review basis. The Weighted Average Unexpired Lease Term (WAULT) increased by 0.5 years. 73% of leases have more than ten years remaining.

Figure 4: Lease expiry profile



Source: Company & Numis Securities Research

Figure 5: Rent review profile

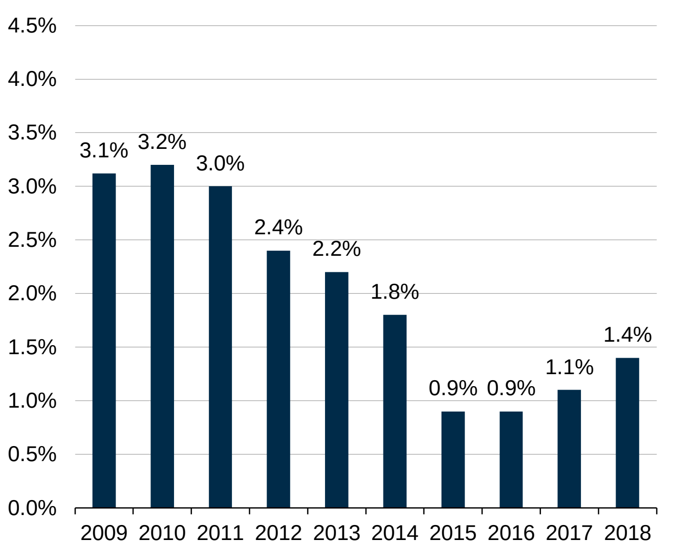


Source: Company & Numis Securities Research

Improving trend of rental growth

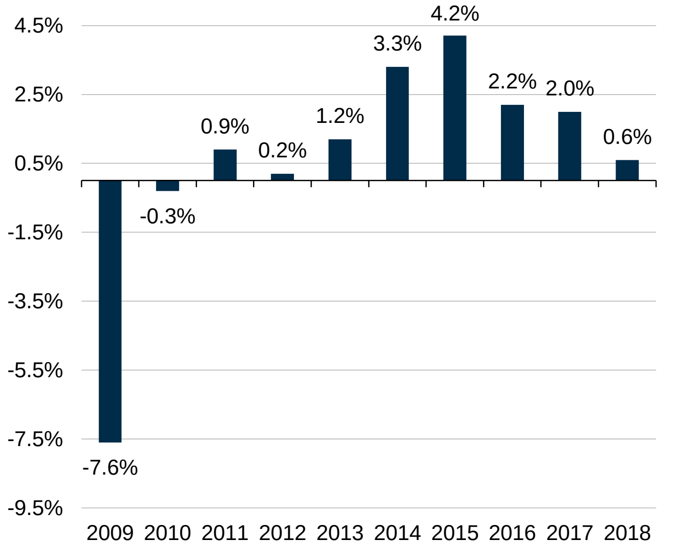
Unlike the broader UK commercial property space, open market rent reviews (OMR) are effectively upward only for primary health leases, with reviews triggered by the landlord. Approximately 1/3rd of PHP's UK leases are reviewed annually with the outcome decided by the District Valuer Service, the specialist property arm of the government Valuation Office Agency. Key inputs into deciding a fair rent include the replacement cost of the asset, as well as general inflation and market evidence. In particular, property replacement costs continue to rise, driven by tighter building regulation, higher specification requirements and increasing land and raw material prices. Over recent years, there have been significant increases in these costs, which are expected to result in further rental growth in the future. The left-hand chart below illustrates an improving trend in rental growth for PHP. The MXF portfolio was experiencing a similar trend, with a blended rate of 1.64% pa on a total of 95 reviews completed in the 12 months ending 30 September 2018. For comparison purposes, the right-hand chart illustrates the annual rental growth recorded by the MSCI Annual All Property Index.

Figure 6: PHP Annualised rental growth



Source: Company & Numis Securities Research

Figure 7: MSCI/IPD Annual rental growth - All Property



Source: Company & Numis Securities Research

Combined debt book

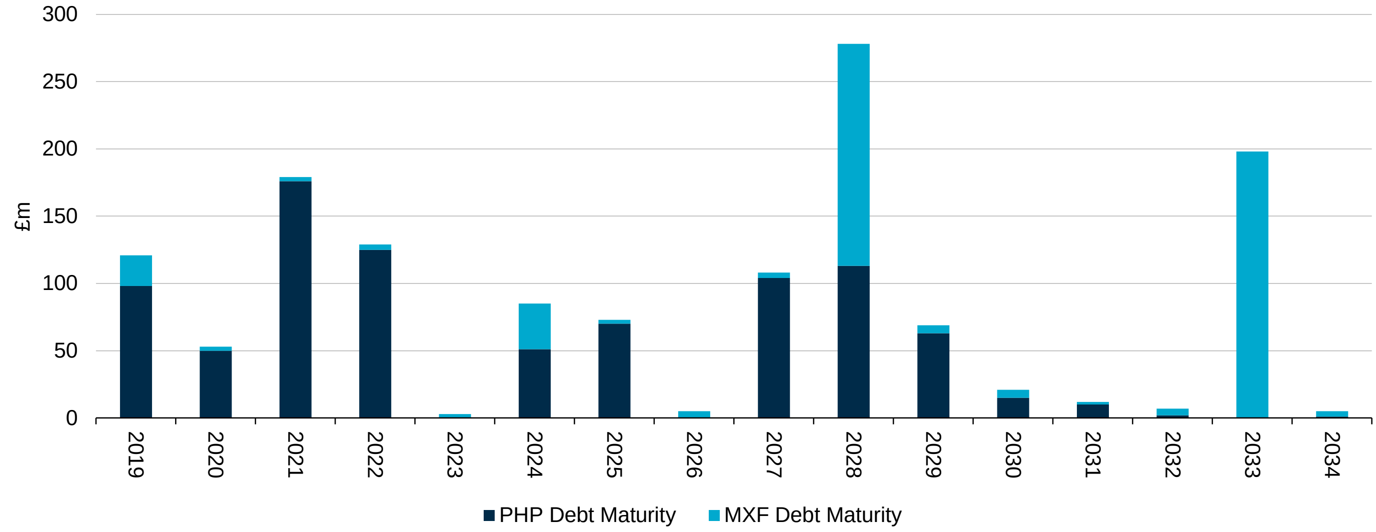
Potential to lower debt costs

The enlarged business will have £1.09bn of net debt secured against £2.3bn of assets. Encouragingly, PHP maintains a comfortable level of investment firepower (net of capital commitments) of £202m. Net LTV post commitments will be 48.1% with an average cost of debt of 4.0%. Although both of these metrics increased fractionally compared with PHP's previous position of 44% LTV and 3.9% cost of debt, we believe the enlarged asset base will provide access to more competitive financing as tranches mature.

Interestingly, in July 2018, Assura Group was assigned a grade A- rating (stable outlook) enabling it to raise £300m unsecured bond with a tenor of 10 years and interest rate of 3% pa. AGR currently has gross borrowings of £660m, with a weighted average cost of 3.28%, illustrating the strength of demand and competitive pricing that can be achieved in the secured and unsecured debt markets.

The following chart illustrates the maturity profile of PHP's existing facilities. The nearest term maturity is July 2019 in respect of the retail bond with a coupon of 5.38%. Combined with the conversion of the remaining c.£17m convertible bonds (4.25% coupon) in May 2019, this will save £2.8m pa.

Figure 8: PHP Debt Maturities



Source: Company & Numis Securities Research

Improved scale in Ireland

Similar market trends at a more attractive entry point

In recent years, both PHP and MXF have entered the Irish market, which offers similar demographic trends to the UK, but at a more attractive price point. MXF made its first acquisition in 2015 and had invested c.£57m into five assets by the end of 2018. As at 31 December 2018, PHP had invested c.£83m across eight assets, increasing to c.£98m on completion of Bray. The average lot size stands at €13.8m. The combined portfolio is currently 6% located in Ireland, with PHP targeting up to 10% in the medium term. Given the potential pipeline of opportunities, we would not be surprised to see PHP consider increasing the target to around 15% of the total portfolio.

Irish market overview

Irish market offers similar supply/demand dynamics to the UK

The Irish healthcare system is somewhat different to the UK, although the demographic driven, supply/demand trends remain the same. The population is expected to grow by 20% to 6m by 2051 with the proportion aged over 65 and 80 expected to grow by 150% and 270% over the same period. The ailing and ageing population, combined with the more rural geography of the country is driving a government initiative to modernise and co-locate a range of primary care services such as GP surgeries, Pharmacies, Dental Services, Mental Health etc with a plan to deliver 200 modern primary care centres. Private sector investment is a key component of delivering the additional supply.

PHP acquires pre-let properties from local developers and commissioned by the HSE

To date, the Irish Health Service Executive (HSE) has funded these new developments by three principle routes. Some have been financed directly by the exchequer and have typically been in areas of high deprivation with works focussed predominantly on refurbishment and extensions of existing HSE facilities. Public Private Partnerships have also played a part under a €2.3bn infrastructure stimulus package announced in 2012. Amongst our listed infrastructure peer group, HICL has invested c.£10m under this programme. Most relevant to PHP are those projects which are funded via an operational/rental lease agreement where a 25-30 year lease is signed between the developer and HSE prior to development. The developer then sells the finished product to a specialist real estate investor such as PHP.

Irish assets and lease characteristics

Large buildings providing a range of primary care service

As the HSE commissions the building, it typically requires 800 sq m of space for each primary care team and there are generally 1-3 care teams in each facility. The HSE typically accounts for 60-75% of the annual passing rent of the building.

Irish CPI linked leases underpin rental growth

Rent reviews are linked to Irish CPI (compounded every five years). Rents can be adjusted upwards or downward, although Irish CPI would have to be cumulatively negative over five years for the rent to go down. According to statistica.com, Irish CPI was 0.7% in 2018 and is expected to rise steadily to 1.87% by 2022.

Robust lease structures

The leases contain two ‘soft’ break clauses which allow the HSE to break the lease if the number of GPs operating from the building does not meet the minimum number consistently for a specific period. In practice, it is not in the interests of GPs to fall below a minimum number as their lease mirrors the HSE obligation on the landlord (PHP), who can in turn terminate the GP contract. Moreover, it seems unlikely that the HSE will be able to find equally suitable accommodation for the vast number of staff and services which are often provided from the buildings.

In addition, the HSE can also break the lease if the landlord does not maintain the property in line with the service level agreement (SLA). However, PHP mitigates this risk by ensuring a high standard of maintenance over the term of the lease. The landlord is responsible for the maintenance of the building but receives a fixed service level agreement (typically €5 per sq ft pa, increasing by CPI) to pay for the day to day service charge expenditure and provide a sinking fund for future maintenance. GP, Pharmacy and other tenants pay for their proportion of maintenance and communal expenses through the service charge. Given that most of the buildings are brand new, and PHP as a large landlord can benefit from economies of scale, day to day service charge expenditure is typically €3.0 per sq ft pa with the balance committed to a sinking fund held in a separate deposit account.

Attractive risk-adjusted return

Irish assets offer 3.0% net margin over funding costs

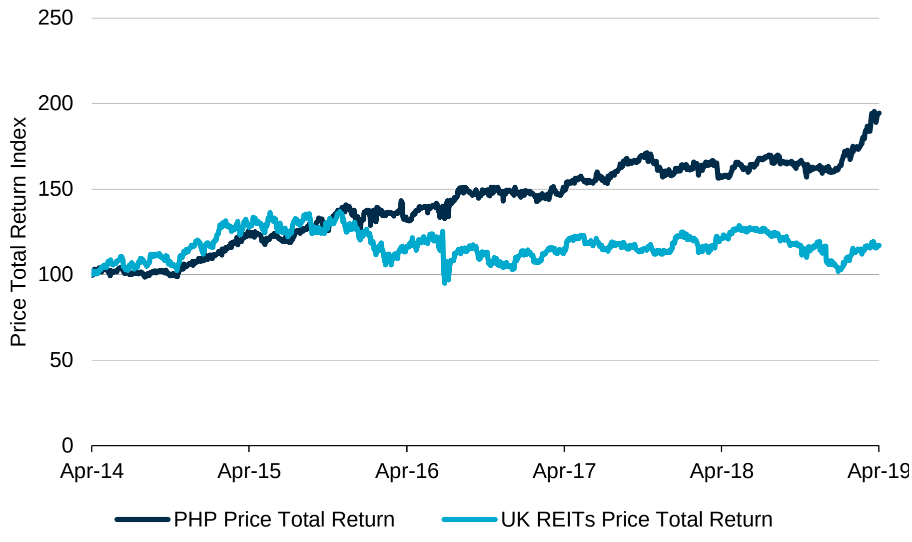
Although there is no reimbursement of GP premises in Ireland as in the UK, we believe that having the Irish government as an anchor tenant underpinning 60-75% of the rent roll is an acceptable substitute. Moreover, the long leases combined with CPI linked rent reviews provide potential for a predictable growing revenue stream. Overall, we believe the 3.0% net margin over funding costs that can be achieved by buying Irish assets, compared with a more modest 1.5% in the UK is an acceptable risk adjusted return to access similar demographic trends. We believe that the enlarged business will benefit from combining its efforts in the Irish market in respect of existing asset locations and pipeline. We calculate that around two thirds of PHPs £330m pipeline is located in Ireland.

Positive market reaction

PHP shares have continued to perform strongly

Since completion of the merger, PHP's share price has continued to perform strongly. The following chart illustrates notable outperformance compared with the wider equity UK REIT sector.

Figure 9: PHP Price Total Return vs UK REIT Index



Source: Company & Numis Securities Research

High quality income streams remain in demand

In particular, the market continues to assign a premium to real estate businesses which benefit from high quality income streams, and the potential for lower volatility of capital returns compared with economically cyclical real estate (office, retail etc). Notably, the primary care sub-sector benefits from non-cyclical supply/demand drivers driven by the demographics of an ageing and ailing population. There is no speculative development in Primary Care, with supply controlled by the NHS. It also remains at the core of government health policy with investment in this area designed to reduce pressure on other NHS services. PHP is well placed to support this in our view.

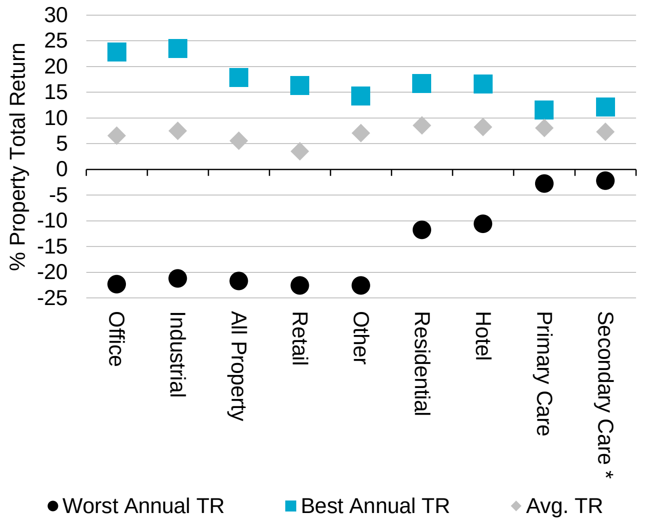
Lower asset valuation volatility relative to other real estate sectors

The left-hand chart below illustrates the relatively low volatility of property returns from the underlying asset class over the past decade. Primary care has shown a more modest range between peak and trough returns. We would expect this to remain the case.

Translated into lower share price volatility compared with commercial

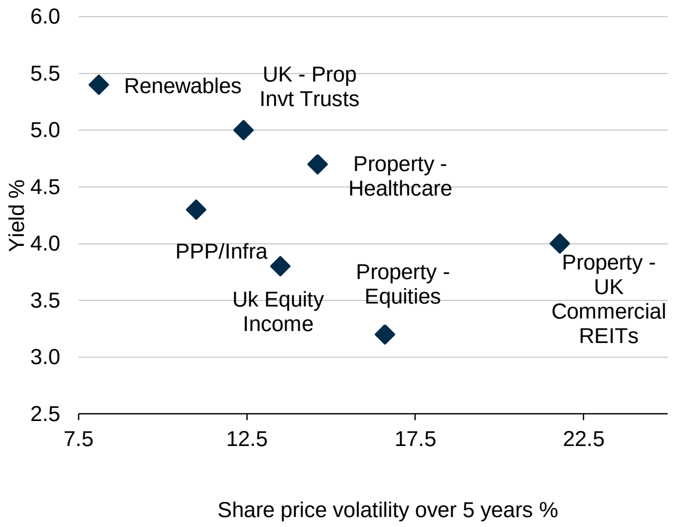
This has translated into lower share price volatility in recent years as illustrated by the right-hand chart. Healthcare real estate shares have shown lower volatility compared with general commercial REITs.

Figure 10: Dec 2007 – Dec 2018 Property Return by asset class



*Source: MSCI/Numis Securities * Secondary Care data period 2011-2018*

Figure 11: 5 year share price volatility & yield



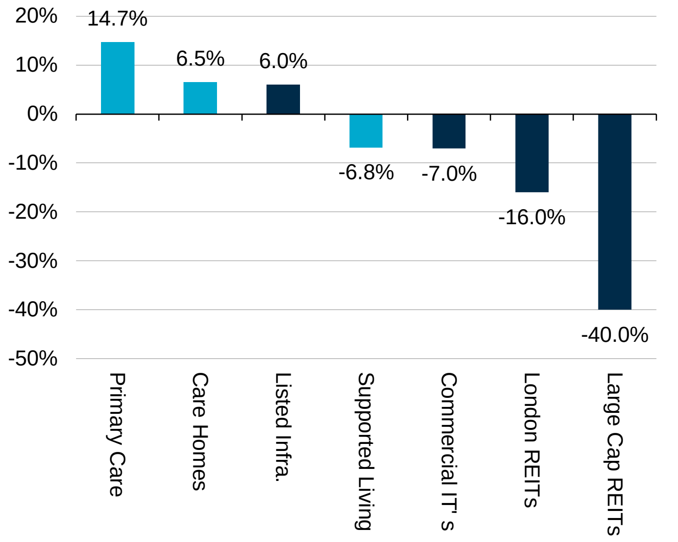
Source: Company & Numis Securities Research

PHP rating in context

Primary care peers trade on an average 14.7% premium to historic NAV

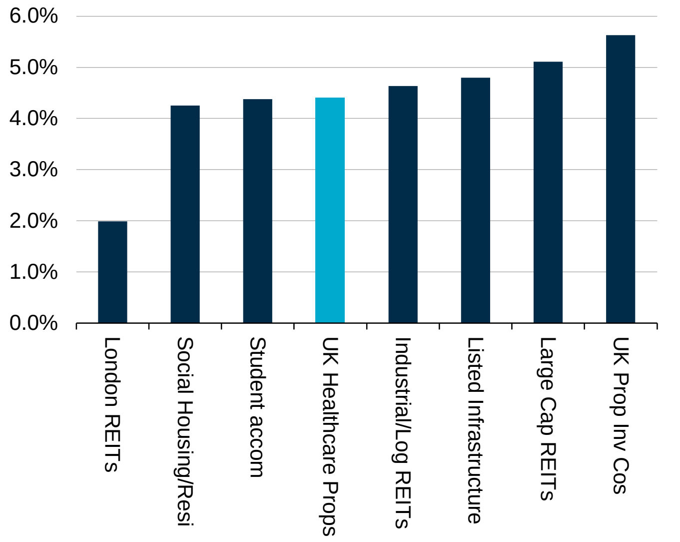
The following chart illustrates that the primary care peer group currently commands an average premium to historic NAV of c.14.7% and yields 4.4% on average. While PHP commands the widest premium amongst the peers (c.24.5% to historic NAV or 13% premium, 4.6% yield based on our 2021 NAV estimates), we believe this reflects the strong historic track record of dividend growth over the past 22 years and factors in the potential for further solid NAV total returns in the near term. Moreover, the 4.3% yield at the current share price remains competitive relative to other yielding sectors where income is potentially more variable.

Figure 12: Average Premium to NAV by sub-sector



Source: Company & Numis Securities Research Healthcare data includes Impact Healthcare REIT, Target Healthcare REIT, Assura Group and PHP.

Figure 13: Average yield by sub-sector

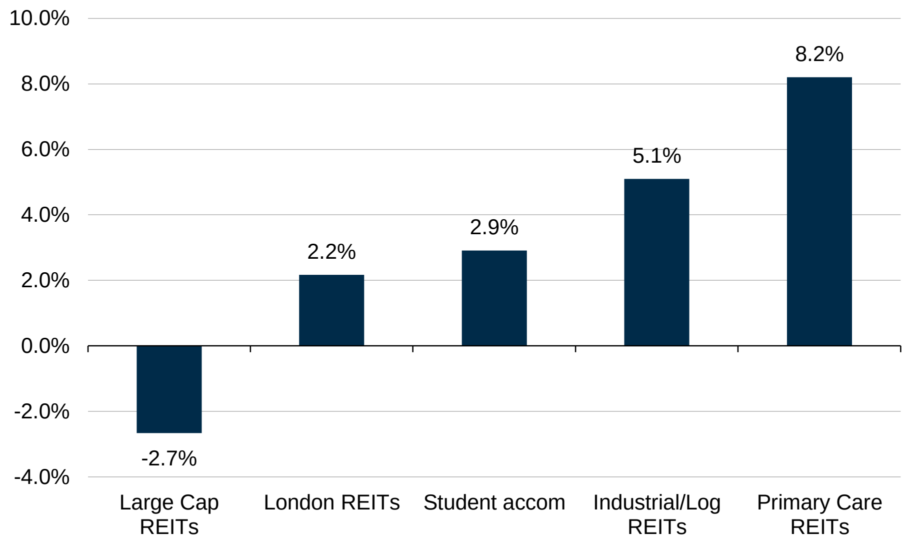


Source: Company & Numis Securities Research/ Healthcare data includes Impact Healthcare REIT, Target Healthcare REIT, Assura Group and PHP

PHP estimates imply 3-year NAV total return CAGR of 8.1%

Our estimates suggest that PHP should be capable of delivering a 3-year NAV total return CAGR of 8.1%. As illustrated below, this compares favourably with expectations for general commercial real estate over the same period.

Figure 14: 3yr NAV CAGR Estimates by sub-sector

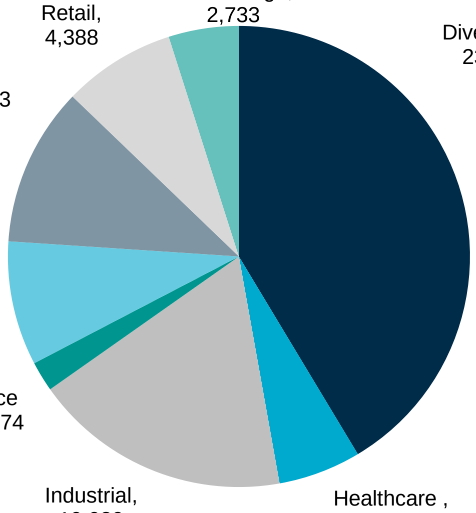


Source: Company & Numis Securities Research

Limited options to access primary care sector

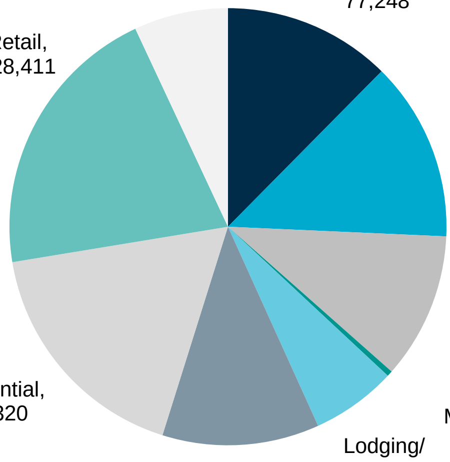
Finally, we acknowledge the scarcity value of the sector, with investors having limited opportunity to access the asset class via any other route. This is exacerbated by the approval process for new primary care assets, which is tightly controlled by the Government with no speculative development, unlike the wider real estate market. As a result, it is difficult for investors to build scale quickly. The following charts illustrate that listed Healthcare REITs are a very modest part of the FTSE EPRA NAREIT index, which contrasts starkly with the US, where healthcare REITs of varying types have a more significant weighting across a broad range of listed companies.

Figure 15: FTSE EPRA NAREIT- UK Market Cap (£m)



Source: MSCI

Figure 16: FTSE EPRA NAREIT – US (£m)



Source: MSCI

Financials

The following summarises our current estimates for PHP.

Table 2: PHP Summary Income Statement Summary

Year end: December (£m)	FY18	FY19E	FY20E	FY21E
Gross rental income	79.6	121.9	132.0	141.3
Irrecoverable property costs	(3.2)	(3.4)	(3.7)	(4.0)
Net rental income	**76.4**	**118.6**	**128.3**	**137.3**
Admin expenses incl. mgt fee	(9.9)	(13.4)	(13.7)	(13.9)
EBIT	66.5	105.2	112.3	123.4
Net interest payable	(29.7)	(45.2)	(46.9)	(53.6)
PBT	**36.8**	**59.9**	**67.8**	**69.9**
Reval surplus	36.0	54.4	47.9	53.2
IFRS PAT	74.3	114.9	116.2	123.6
Weighted average shares (m)	708.6	1,050	1,134.2	1,134.2
EPRA EPS (p)	**5.2**	**5.7**	**6.0**	**6.2**
DPS (p)	**5.4**	**5.6**	**5.8**	**6.0**
% change in DPS (%)	*2.4%*	*3.7%*	*3.7%*	*3.4%*

Source: Company & Numis Securities Research

Net rental income: In 2019, our estimates imply a 2.6% increase in net rental income when compared with the pro-forma numbers published in the merger circular. MXF will contribute for nine months of 2019. We assume an uplift of £1.5m on rent reviews. We expect this to be bolstered by c.£110m of acquisitions in 2019. We assume a blended acquisition yield of 5.3% with purchases weighted towards Ireland. In 2020, we suggest that net rental income could increase by 8% as the MXF merger contributes to the full 12 months. We assume £120m of acquisitions. In 2021, we assume an uplift on review of £1.9m and £120m of acquisitions. Risks to these forecasts include better or worse rental growth on reviews or the addition of fewer or greater new assets than we currently estimate.

Finance costs/debt: Assumes current agreed facilities only with a blended cost of c.4.0% falling to 3.9%, although we believe that management will be able to improve on this.

Admin Costs/management fees: We factor in the anticipated £3.0m of management fee savings comprising £2.5m of lower management fees charged on the MXF portfolio and a £0.5m rebate given by the manager of PHP in relation to the transaction. As gross assets grow, the fee will ratchet down as follows:

Table 3: PHP External Management Fee

GAV <£250m	0.500%
GAV £250-£500m	0.475%
GAV £500m-£750m	0.400%
GAV £750m-£1bn	0.375%
GAV £1.0-£1.25bn	0.325%
GAV £1.25bn-£1.5bn	0.300%
GAV £1.75bn-£2.0bn	0.250%
GAV £2.0bn - £2.25bn plus £808m MXF	0.225%
GAV £2.25bn	0.200%

Source: Company & Numis Securities Research

Key balance sheet assumptions include 2.4% capital value growth in 2019 driven predominantly by rental growth and fractional yield shift of 2bps. We assume stable valuation yields in 2020 and 2021 with capital value growth reflecting rental growth of 2.0%.

Table 4: PHP Summary Balance Sheet

Year end: December (£m)	FY18	FY19E	FY20E	FY21E
Investment props	1,502.9	2,489.7	2,657.6	2,830.8
Investments	0.0	1.1	1.1	1.1
Cash and cash equivalents	5.9	17.6	16.9	16.1
Net debt	(670.2)	(1,218.2)	(1,338.9)	(1,459.7)
Other net assets (inc MI)	(44.7)	(59.5)	(59.5)	(59.5)
Net assets	788.0	1,189.9	1,237.1	1,1289.4
EPRA Adj	20.6	20.6	20.6	20.6
EPRA net assets	**808.6**	**1,210.5**	**1,257.7**	**1,310.0**
Number of shares (m)	793.2	1,134.2	1,134.2	1,134.2
EPRA NAV per share (p)	**105**	**106.9**	**110.9**	**115.5**
Net LTV (%)	**44.6%**	**48.9%**	**50.4%**	**51.5%**

Source: Company & Numis Securities Research

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