

Morning Notes 15 November 2012

Primary Health Properties[#] (PHP)

Buy

Data

Price	329p
Target price	345p
Market cap	£246m
Gross facilities available	£459m
Index	FTSE SmallCap
Sector	Real Estate

Stats (prior to changes)

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2011A	2012E	2013E	2014E
Net Op Inc (£m)	25.1	27.5	32.5	36.6
Adj PBT (£m)	9.7	8.7	10.3	11.9
Adj EPS (p)	14.5	12.1	13.8	16.0
EPS growth (%)	(1.2)	(16.8)	14.1	15.9
DPS (p)	18.0	18.5	19.0	19.5
PER (x)	22.6	27.2	23.8	20.6
Div yield (%)	5.5	5.6	5.8	5.9
Adj NAV (p)	319	315	321	328
NAV/3net (p)	246	249	254	262
Prem/NAV (%)	3.2	4.4	2.5	0.2
Prem/3net (%)	34	32	29	26

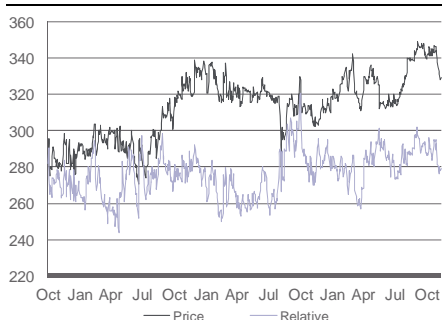
Changes to forecasts

Source: Company accounts, Peel Hunt estimates

Y/E Dec	2012E Old	2012E New
Adj PBT (£m)	8.7	nc
Adj EPS (p)	12.1	nc
DPS (p)	18.5	nc
Adj NAV (p)	315	nc

Performance

Source: Bloomberg



Analyst

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[#]Corporate client of Peel Hunt

Q3 IMS: £30m of acquisitions grow income

Four acquisitions in the period to November totalling £30m, with an additional £106m of deals (gross) in solicitors' hands – there is c£50m of debt attached to these acquisitions, and equity of £56m. Assuming these deals complete, the remaining undrawn debt facilities total c£58m for further acquisitions to help grow dividend cover. Buy for bond-like income, with a WAULT of 16 years and a 5.6% dividend yield.

Highlights

- Annualised passing rent continues to **increase: +5.1% to £34.9m** since June 2012 as a result of acquisitions/completion of developments. This rent roll includes £0.9m from committed developments.
- Average annualised rental growth of **2.5%** achieved on rent reviews YTD.
- The net initial yield at 5.74% continues to remain stable.
- The portfolio remains **100% let**.
- **Retail bond of £75m** (unsecured) raised in July at a 5.375% coupon for 7 years (vs St Modwen's 6.25% coupon, Workspace's 6.0% and CLS's 5.5%) bringing total facilities to £459m, of which £329m is currently drawn for a **c61% LTV**.

Acquisitions, firepower & debt

- **£30m of assets were purchased** in Q3 over four properties totalling 106k sq ft:
 - Two properties (total cost £12m) are forward-funded developments that complete in H2 2013 (as per the announcements in September).
 - Two properties (total cost £18m) are fully let.
- Furthermore, **acquisitions totalling £106m** are in solicitors' hands. Some of these transactions are of leveraged portfolios, having c£50m of associated debt attached in total, giving PHP a net equity consideration of £56m.
- **Firepower** remaining: £58m (after the net £56m deals in solicitors' hands and £16m of capital currently committed to forward-funded developments).
- **The marginal cost of debt is low at c3.25%** (vs current average cost of debt of 5.7%), against which PHP is targeting c6.0% income yields on acquisitions.
- **Debt:** Following the refinancings, only £27m of debt (with AIB) matures before 2014. AIB is unable to refinance the loan, which carries a low 70bps bank lending margin. PHP plans to repay the loan from existing undrawn debt resources in Jan 2013 and refinance with a new lender. PHP will continue to hold interest rate swaps provided by AIB, which will be utilised to hedge new and existing debt.

FY Dec 2012E forecasts unchanged:

- Adjusted NAV 315p for **+4% prospective premium**.
- Adjusted EPS of 12.1p. This incl £55m of: acquisitions forward-funded developments and capex in the full year. To date, PHP has acquired £45m.
- DPS unchanged at 18.5p for 0.7x cover and **5.6% dividend yield**.

Recommendation structure and distribution as at 15 November 2012

		Corporate No	Corporate %	Total No	Total %
Buy	> +10% expected absolute price performance over 12 months	49	88%	164	565
Hold	+/-10% range expected absolute price performance over 12 months	7	13%	107	36%
Sell	> -10% expected absolute price performance over 12 months	0	0%	23	8%

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

Peel Hunt...

Company	Analyst	Shareholding (%) held by			during the last 12 months	
		Company in PH (>3%)	PH in Company (>3%)	makes a market in this company	is broker to this company	has received compensation from this company for the provision of investment banking services
Alpha Pyrenees Trust				x	x	x
Amlin				x		
Atkins (WS)				x		
CPP				x		
Euromoney Institutional Investor				x		
Huntsworth				x		
Invensys				x		
Keller Group				x		
Primary Health Properties				x	x	
Ricardo				x		
stv group				x	x	x
Tarsus Group				x		
Ted Baker				x		
Unite				x		
UTV Media				x		

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Recommendation history

Company	Date	Rec	Date	Rec	Date	Rec	Date	Rec
Alpha Pyrenees Trust	17 Dec 09	Buy						
Amlin	10-Feb-12	Hold	27-Jan-12	Buy	26-Aug-10	Hold		
Atkins (WS)	16-Jun-10	Hold						
CPP	30 Jan 12	Sell	21 Dec 10	Hold				
Euromoney Institutional Investor	20-Jul-12	Hold	28-May-12	Buy	27-Mar-12	Hold	23-Nov-09	Buy
Huntsworth	18-May-12	Hold	30-Apr-12	Sell	11-Jan-11	Hold		
Invensys	27-Jul-12	Hold	19-May-11	Buy				
Keller Group	23-Oct-12	Buy						
Primary Health Properties	19-Nov-09	Buy						
Ricardo	12-Oct-11	Buy						
stv group	18-Oct-10	Buy						
Tarsus Group	27-Jul-11	Buy						
Ted Baker	01 Jun 12	Buy						
Unite	26-Aug-10	Buy						
UTV Media	18-Oct-10	Buy						

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