STIFEL

Primary Health Properties plc

PHP – LSE; PHP.L

July 27, 2017

UK REIT

HOLD

Price (26 July 2017)	114p
Rating	HOLD
Target Price	110p
Bloomberg/Reuters codes:	PHP LN / PHP.L
Market cap (£m)	682

Key financials

Year to Dec	**2016A**	**2017E**	**2018E**
NAVPS adj (p)	91	95	100
Prem. to NAV (%)	25	20	15
EPS adj (p)	4.8	5.3	5.6
PE adj (x)	23.9	21.4	20.5
DPS (p)	5.2	5.3	5.4
Div yield (%)	4.5	4.6	4.7

Prices are as of close 26 July 2017

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

H1 2017 interim results

Summary

Interim results from PHP show the company is continuing to expand, having reached 303 centres in its portfolio with a value over £1.3bn. The average uplift on rent reviews during the period rose to 1.6%, from 0.9% last year, suggesting that after a number of years of very low rental growth in centres with open market leases due to the lack of development across the sector, the market may now be showing signs of momentum building. Dividends in the first half were up 2.2%, the company's 21st successive year of dividend growth. We maintain our Hold rating, but highlight the dividend yield of 4.6% (vs the REIT average 3.8%) and the continued positive sentiment towards the healthcare property sector.

Key Points

Valuation & rating. PHP's shares have performed in line with the sector year to date, up 3%, and trade at a 19% premium to the end-June NAV announced today. This is amongst the highest premia to NAV in the sector, with the shares supported by a 4.6% dividend yield, covered by earnings, and very favourable sentiment towards the underlying asset class given its highly defensive characteristics. We think the shares can maintain the premium rating, and perform in line with the sector, hence our Hold rating.

NAV 96.1p, up 5.5%, and ahead of our forecast of 93p, driven by like-for-like valuation growth of 2.4% over the period, 90% of which was due to the net initial yield falling 13bps to 5.04%, with the remaining 10% due to rent reviews and asset management projects.

EPS 2.6p, up 8.3% compared to the same period last year, slightly below our forecast of 2.8p.

Dividends total 2.62p over the first two quarters (on both a paid and declared basis), in line with our forecast of 2.62p, up 2.2%. This is the company's 21st successive year of dividend growth, which is a record unmatched in the sector.

Operational performance. The average annualised uplift on 107 rent reviews with a combined value of £13m completed in the period was 1.6%, resulting in a £0.4m increase in the rent roll, up from 0.9% achieved over FY16A. 75% of the company's leases are on an open market basis, with the balance having either fixed (6% of leases) or RPI-based (19%) reviews.

Expansion. During the period PHP bought four new centres for a total of £18.6m, including the milestone of its 300th medical property, plus its second acquisition in Ireland with the forward funded development of a £6.4m scheme in Country Cork. The average WAULT on acquisition of the four assets was 20 years. Post the period end, PHP acquired three further healthcare centres in the UK for £35.5m, bringing the portfolio value to over £1.3bn.

Target price methodology/risks

Our target price of 110p assumes a 4.9% dividend yield one year forward. The main risk is a radical change in government policy (unlikely).

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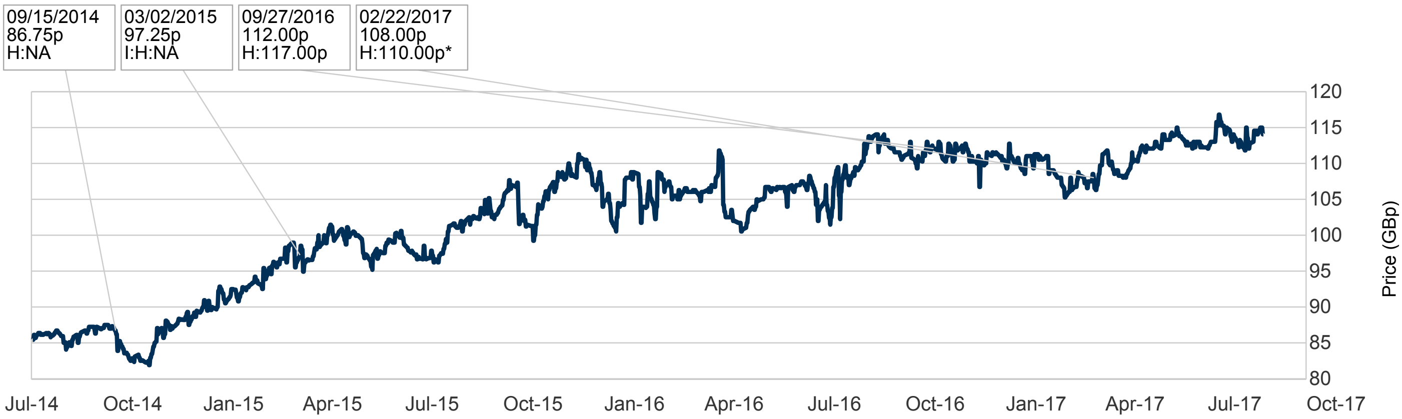
Primary Health Properties plc (PHP.LN) as of July 26, 2017 (in GBp)



*Represents the value(s) that changed.
B=Buy; H=Hold; S=Sell; NR=Not Rated; SU=Suspended; D=Discontinued; I=Initiation

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For a price chart with our ratings and any applicable target price changes for PHP.LN go to http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=PHP.LN

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