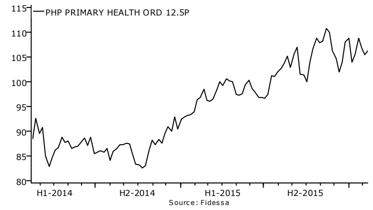
11th February 2016

hardman&co

Primary Health Properties REIT

100% dividend cover target achieved in H2 2015

Real Estate



Source: Fidessa

Market data	
EPIC/TKR	PHP
Price (p)	106.0
12m High (p)	111.0
12m Low (p)	85.0
Shares (m)	447.0
Mkt Cap (£m)	473.8
EV (£m)	1166.8
Free Float* (%)	96%
Market	Main LSE

**As defined by AIM Rule 26*

Description

Acquisition and ownership of modern primary medical properties in UK and expanding into Ireland

Company information	
Non exec Chair	Alun Jones
MD	Harry Hyman
CFO	Phil Holland

+44 20 7451 7051
www.phpgroup.co.uk

Next event	
Apr 2016	AGM
Aug 2016	Interim results
Nov 2015	IMS

Analyst

Mike Foster 020 7148 0545
mf@hardmanandco.com

PHP reported final results 4th February and 2015's dividend cover rose to 107% in second half. FY 2016 we estimate 105% cover. There have been 19 years' unbroken dividend increases paid since founding. 2015 profits were significantly enhanced by operational and financing efficiencies. Cost of debt stands at 4.67%, and falling. So what comes next? Predicability in a difficult / late-cycle world. Likelihood of further progressive tightening of yields. The assets were valued on an average net initial yield basis 5.32% 2015, (tightening 10-20bps pa in recent years) a continuing trend. With upward only rents, this is a secure and growing real estate investment.

- **Strategy:** PHP grows its UK portfolio, now entering ROI, enhancing support for dividend growth, helping efficiency optimisation. PHP's EPRA Cost Ratio, admin costs as a proportion of net rental income, fell to 11.6% H1 2015 and 11.5% full year (vs 12.7% H1 prior and 12.0% 2014), a strong performance for the sector.
- **Stability and growth:** 10.0% NAV rise 2015. PHP has trebled its portfolio size in five years. PHP's reputation, partners and track record assist when securing both standing assets and new stock. 2016 EPS would grow even with nil acquisitions: we see an acceleration in acquisitions and forward funding, including Ireland.
- **Valuation:** This (healthcare) real estate sub-sector trades at a premium to NAV, as indeed it does also in the USA. PHP's shares are valued on the basis of its assets and a robust progressive dividend, with cover rebuilt to over 100%. Our model assumes a modest 2016 rise of 1%, purely as a result of rent rises.
- **Risks:** There is no rental income risk or void risk, but exposure to future interest rate trends. Loan/asset value is 62.7%. Average debt maturity is steady, around six years, with a small amount of forward Swaps. As incremental management costs are below PHP's average, faster expansion enhances dividend cover.
- **Investment summary:** We calculate PHP Total Shareholder Return (TSR) CAGR of over 15% over the past five years. In 2015 TSR was 23.5%. Investors in this REIT are exposed to an asset class which yields well above cost of funds, with rent being upwards only and AAA covenant. There is some exposure to future interest rate trends – closely monitored.

Financial summary and valuation

Year end Dec (£m)	2012	2012	2014	2015	2016E	2017E
Income	33.2	42.0	60.0	63.1	67.8	72.7
Finance cost	(21.8)	(26.9)	(35.5)	(33.7)	(35.0)	(37.2)
Declared profit	1.1	20.2	36.9	56.0	34.7	37.0
PBT Adj. (pre revaln)	7.3	9.5	18.2	21.7	24.7	27.0
EPS Reported (p)	0.5	5.7	8.3	12.6	7.7	7.9
EPS Adj. (p)	2.5	2.7	4.1	4.8	5.4	5.6
DPS (p)	4.63	4.75	4.88	5.00	5.15	5.38
Net (Debt)	(377.9)	(587.2)	(655.2)	(694.7)	(744.4)	(792.9)
Dividend yield (%)	4.4	4.5	4.6	4.7	4.9	5.1
Price/NAV	1.78	1.53	1.52	1.37	1.29	1.23
NAV (p)	59.4	70.0	69.6	77.6	82.0	86.1
EPRA NAV (p)	75.7	76.5	79.7	87.7	92.1	95.8

Source: PHP report accounts. Estimates: Hardman & Co Research

Disclaimer: Attention of readers is drawn to important disclaimers printed at the end of this document

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Why invest

With a strategy of investing in secure long term rental streams…

PHP invests in modern assets which are in strong demand and offer secure long term returns. Assets comprise primary care medical properties (surgeries, multi-use clinics), the portfolio grown through funding development of pre-let purpose-built assets and acquiring portfolios of modern standing stock. These are securely backed assets. 91% of lease income is effectively Government paid, with the rest being exceptionally well underpinned income from pharmacies.

….the 19 years' existence of PHP has seen continual progressive dividends

As a result, there have been 19 years' unbroken dividend increases paid since founding. Returns have been very respectable during the recent cyclical upturn in UK real estate. We calculate that over the past five years, PHP's total shareholder return compound annual growth rate has been over 15%. Total Shareholder Return in 2015 was 23.5% (vs 2014 at 12%).

In the past five years TSR has been a robust 15% pa

PHP is efficiently run. In 2015, the EPRA cost ratio fell again, to 11.5%, reflecting a series of efficiencies including the revised management agreement implemented in May 2014. The external management structure quantifies efficiency. In 2015, average cost of debt was 4.67% compared to 5.15% in 2014 and a significant saving became effective from H2 2015, so there will be a full year benefit in 2016.

The administrative costs are falling, as is cost of debt (4.7% vs 5.2%)

PHP provides a dynamic combination of good asset performance in the upswing up to 2007 (keeping pace with UK real estate capital appreciation averages - see page 6) and hardly any years of negative return in the downswing. We have noted the 15% five year TSR since then. PHP's LTV of 63% is reasonably conservative, given the nature of the assets.

Currently, the broader real estate sector is at a pivotal point. On a macro-basis, rising US or indeed UK interest rates would not help but do not necessarily lead to sector underperformance in themselves. See page 5 chart. The ideal outcome would be for a rather modest series of rises – which we consider is the most likely outcome. Note that PHP mitigates risk by a combination of treasury management factors including swaps hedging. Note the reduction in effective average interest rate and treasury management success in refinancings in recent years, especially the past year.

This means that holders of PHP equity (and providers of debt) can take advantage of the benefits of income and capital leverage without taking any inordinate risk. We conclude this leaves leeway for any realistic 'bumps in the road'. Fears of a slowdown in China would be positive – encouraging global real estate investment into secure assets such as UK primary medical. Falling (or at least delays in modest prospective rises in) funding costs are a strong positive.

Property is being acquired at 5.0%+ cash yield (i.e. after marginal management costs of 0.325%) and incremental cost of bank debt (based on 5 year rates of 1.35% down from 1.75% start year just a month ago, plus PHP's average margin of 185bps) sits at 3.2%. We note the entry to the ROI market, offering a pickup c200bps greater.

Currently acquiring assets at 5.0% net (post costs) cash yield with cost of money 3.2%. Also now entering Republic Ireland

The strategy in both the downturn and the upturn has plainly delivered. That is a positive point in itself, but with the UK real estate cycle no longer near its low point and maybe some risks appearing in the macro-economy, the PHP combination of growth, income and security is all the more attractive.

PHP actively manages its financing. Recent results again highlighted cost savings in financing. It is clearly both reducing finance cost and mindful of future interest rate rises, undertaking Swaps and having broadened its sources of financing. The outcome of achieving an average maturity profile of 5.9 (6.2) years has proven to be particularly appropriate in a period of prolonged low medium term interest rates. Over the next short number of years PHP will renegotiate debt progressively maturing. Currently, this imparts a modest downward trend to borrowing costs, as current interest rates are below those pertaining when older debt was negotiated.

The portfolio size has trebled in five years

It has trebled its portfolio in five years so has proven its model – where size does bring benefits. PHP's reputation and track record means it is able to source investment in existing standing investments from investors and owner occupiers. This is a sector which requires detailed expertise (including in securing efficient debt funding) in order to maximise returns. Few organisations have that expertise.

PHP does not develop property, but new-build assists it to grow and does tend to be beneficial to rents of proximate assets eventually

Turning to the development of new properties, this has been disappointing sector-wide. There is a strong requirement as modern assets can relieve pressure on hospitals and A&E and do the appropriate things (screening, minor procedures etc.) at much better value. But rents on new assets are significantly higher per square foot. New development was only moderately restrained post GFC. The main drag was as a result of the abolition of PCTs. Over the next 12 months we expect to see a start of a return to a more normal pace of activity. From 1 April 2015, greater budgetary control has been being devolved through the introduction of Co-Commissioning to Clinical Commissioning Groups (CCGs) that want to have more influence over the commissioning of care in their area. We however see no material tangible evidence as yet, but a deadline for 'action plans' stands at 1 April 2016.

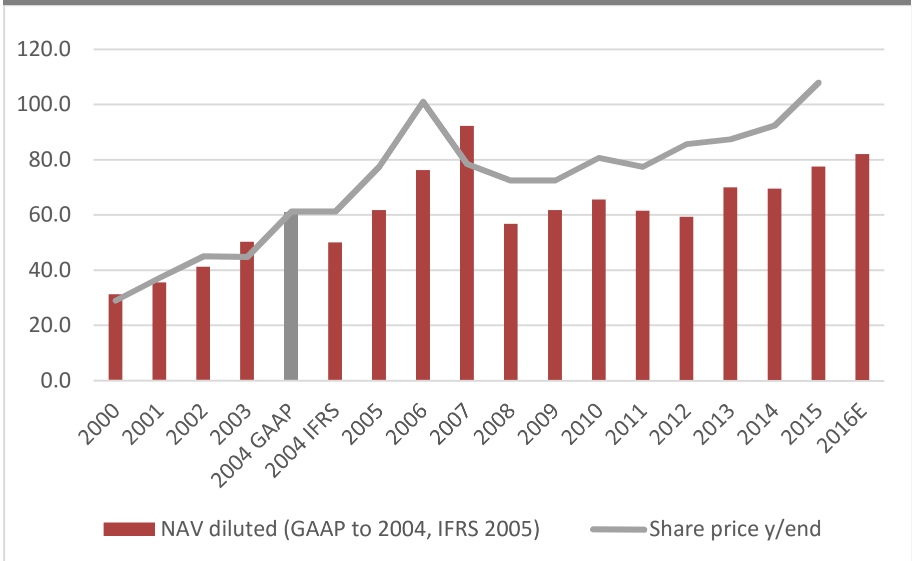
There is some visibility as growth in UK new develop-ments. This would benefit PHP but in absence of that, NAV and EPS still grows

Were new development to stay low, PHP would continue to benefit from NAV and EPS accretive rent increases on its existing stock. Were development to revive, there are two direct benefits. PHP has a number of formal pipeline agreements and long standing development relationships. PHP takes no development profit or risk. Secondly, new stock is valued on the higher rents which it inevitably secures. Rising start rents are required if build costs rise and – as we see from constant reports from both housebuilders and commercial developers – building costs are rising significantly. A single new development does provide 'comparable' to surrounding modern assets. Rents are reviewed every three years and assets near newly build property tend to see marginally stronger revaluations.

Proof of 'pudding', long term

In summary: the track record of both the business and the share price are robust and we see little propensity for that to change.

PHP share price and NAV



Source: Hardman & Co Research, PHP statements and accounts

Timing

Will a global interest rate rise harm PHP rating?

Rising interest rates can mean a growing economy which does no harm to real estate

But this time, GDP risks are rising. In that scenario PHP benefits because:

1. *Rising rates do not necessarily cause investors to abandon real estate*
2. *Uncertainties make rate rises slow*
3. *PHP shares and assets benefit from flight to low risk*

- After initial short pressure, it did not hurt prices medium term 'last time' (2004).
- Last time (2004-6), the rising period coincided with rising rents and 'risk-on'.
- This time, we would fear selective rent reductions or void increases *elsewhere* in the broader real estate sectors: and 'risk-off'. Risk-off benefits PHP and its sector. Our key point is that, at the same time, we consider rising interest rates would not per se cause investors to shun real estate relative to broader equities.
- See p.6 for PHP performance through cycle ups and downs and we conclude it does perform in a real estate up-cycle but outperforms significantly in the down.

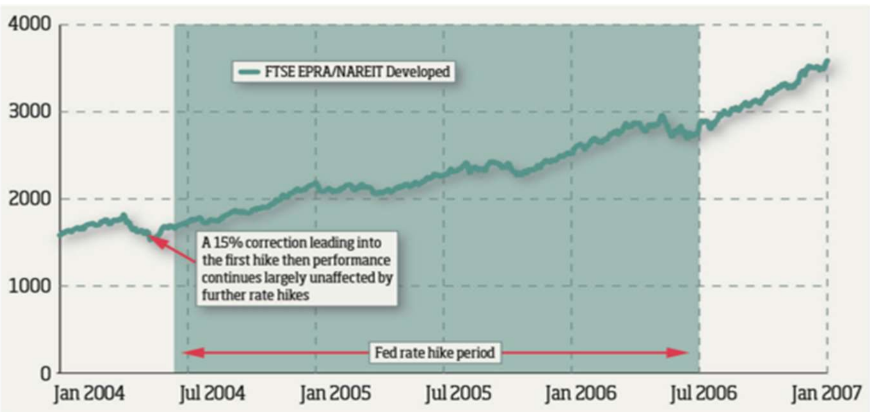
1) We conclude that a rising interest rate environment does not necessarily lead to an exit from real estate but that investors need a 'good reason' to stay in real estate. Last cycle, the reason to stay with the sector was rising rents. THIS time, the reason is PHP's combination of security, good yield and growth.

2) The global uncertainties and slowdown (and the longevity of the US economic cycle upturn) should make any interest rate rises slow. Further, the sector and indeed PHP itself, debt funds via maturities of 5 year plus. It is movements in these rates (crashing 40bps in a month) not base rates which are the driver.

3) This cycle around, we consider that a particularly robust way to invest is through safe, secure assets, such as the high-covenant, long, up-only leases of PHP and the sector. A rapid rise in rates would however be unhelpful.

We believe modest global interest rate rises will not hurt PHP's rating and they have no macro-economic effect on rent income. Relative benefits draw investors.

Listed real estate performance



Source: FTSE, EPRA-NAREIT, US Federal Reserve

The Fed funds rate had fallen from a high of 6.5% in 2001 to 1.0% in 2003, rising from May 2004 steadily reaching 5.25% in Q2 2006. Real estate stocks were strong.

Both commodities and stock markets have been turbulent in recent weeks and key one factor is the 16th December 2015 Federal funds rate rise. On 27th January, US stocks fell after the most recent decision on forward interest rates stated that it was "closely monitoring" developments in global economies and markets but stopped short of saying this could restrain economic activity and inflation. Commentators concluded that the Fed was paying attention to markets and global developments, but sticking with the trend of raising rates. The uncertainty is timing but it is very unlikely to be uncertainty over the direction and ultimate intention re increases.

There is a distinct slowing in UK real estate markets. This has no impact on PHP income....

.... whilst it may keep its borrowing costs 'low for longer'

Things look significantly different now vs 2004. The January 2016 RICS UK survey of commercial property found overall buying interest, which rose in the last quarter, rose at its slowest pace since Q3 2013. It considers that the restricted overall supply will maintain price movements in positive territory. RICS chief economist (at the release of the survey in last week January) stated: "Indeed, the prospect of a 'low for longer' interest rate environment provides further comfort for those parts of the property market where values are looking a little stretched." We agree with the positive comment on 'low for longer' but consider there are risks to valuations in the lower-yield prime properties, noting that luxury goods sales are falling significantly in China and, by extension, in a downturn, there might be a risk to super-prime assets. We also see downside risk in sectors exposed to potential GDP slowdown.

That said, the counter argument is that global real estate fared well at a time of rising rates because both were reflecting a period of decent economic growth, a move 'on-risk' and rising rents.

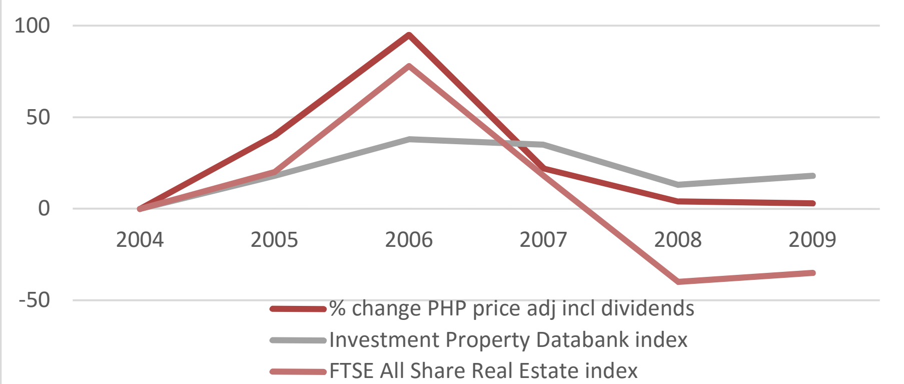
Background to current sentiment and to PHP's low risk

In conclusion on macro-economic influences from rates: since the last turning point in 2004, the world has changed dramatically, but we look to the last major cyclical inflection in rates. At that stage, the global real estate sector fared well, after an initial setback. The developed world EPRA (European Public Real Estate Association) share price market reaction to the 2004 rate rise is outlined below. As long as investment is in the more robust spectrum of real estate assets within robust financing structures, we would not overly fear a move up in rates per se.

PHP is not exposed to any rental risk. It is not – we consider – exposed to valuation downside. See the chart below. It IS exposed to interest rates in a few years as there is hedging in place nearer term. LTV is a very manageable at 63% and interest cover a healthy (for real estate) 1.64 times.

The 'proof of the pudding' is how PHP did in good times and bad. Especially as there may be strains coming in both the economy and in banking. PHP has shown strong investment credentials under a variety of differing market conditions. In the 'boom' years it kept ahead of benchmarks, with the setback in the global financial crisis leaving it less impacted than those benchmarks.

A real estate stock for all markets - % changes in run up to GFC and post NAV



Source: Hardman & Co Research, PHP statements and accounts

We believe the graph above illustrates that PHP did well in the pre GFC boom and held up very well relatively to other FTSE All Share Real Estate. The IPD index is pricing of real estate assets (not equities). Since 2010: we have noted the 13% five year TSR since then. Just to add a point of reference: in the five years to 2004 accounting date, the IPD rose 70%; PHPs share price rose 160%. This was not as a result of PHP price being substantially ahead of NAV. End 2004 the PHP price stood at 61p; GAAP NAV 61p; IFRS NAV 50p. See page 4 and 8 chart of share price and NAV since 2000.

How resilient are asset valuations?

The PHP assets are robust, we contend, both by nature of 1) their covenant and rent visibility and 2) by nature of their pricing, which offers lower volatility and, currently, an income premium to total UK real estate.

Resilient assets but valuation yields have not fallen as much as the general market

The net initial yield of UK primary medical real estate has been in a range of 5.2% to 6.2% for the past ten years. By contrast, IPD (investment property databank) all property UK net initial yield has ranged between 4.5% and 7.5% in that period. Currently the medical property yields more than 'average' UK real estate: 5.4% vs 5.1% for all property UK.

Healthcare assets perform with low volatility

Since 2007 (source IPD), UK primary health assets have returned 7% pa (over 80% of that being rent streams) on a standard deviation of 4.5. All healthcare respective figures are 6% and 5.3% standard deviation. All property has achieved an annual 3.5% return on 13% standard deviation. For the record, equities stand at 3.5% return and 17% standard deviations.

In 2015, PHP's total property return was 9.7% vs IPD All Property Index 13.8% in 2015.

Note, NAV is stated post the negative effect of swaps held. We fully anticipate these swaps – from here – unwinding over time rather than losses being crystallised. For comparison, PHP's EPRA NAV of 87.7p compares to its statutory NAV (including the swaps effect) of 77.6p

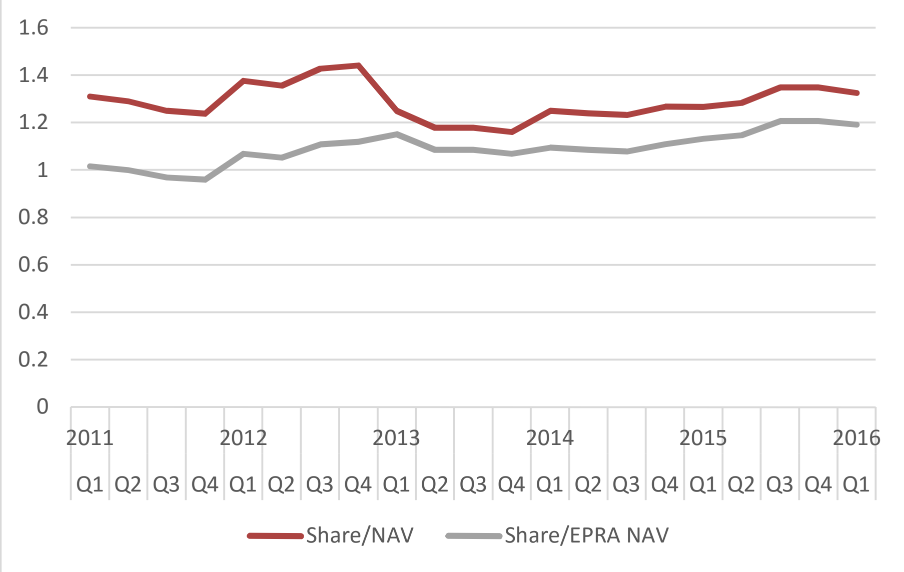
How resilient is PHP stock valuation?

The stock trades at a premium to NAV. So do other stocks in the sub-sector, the wider real estate sector and the US too. The premium is not stretched either by 1) recent standards or 2) compared to the rest of the sector. Note EPRA principally excludes adjustment for (expensive) historic swaps. Note also that as a REIT, nil CGT is payable by PHP now or in the future.

Relationship of share price premium to NAV is relatively stable …

… though to EPRA NAV there has been some expansion

Recent PHP share prices vs NAV and EPRA NAV

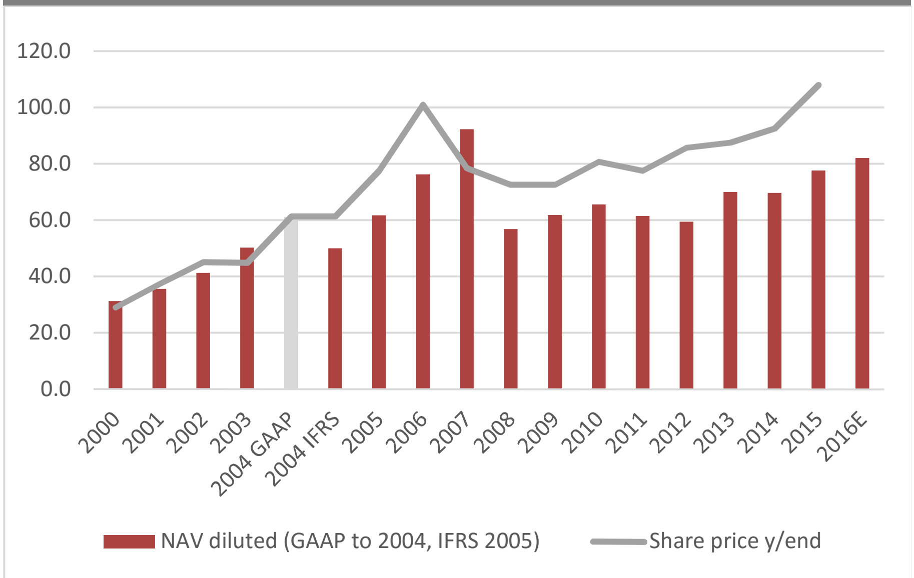


Source: Hardman & Co Research, PHP statements and accounts

The share price premium to NAV has expanded over a longer term time period, but much of this can be attributed to the higher basis of stating NAV under GAAP which was adopted until 2004 (see the 2004 two series comparable below – lighter bar). On constant accounting, investors are hardly paying a higher premium to NAV compared to the rating PHP was on prior to its achieving its enviable track record. We reproduce below the chart on page 4.

Long term steady trend with some modest price premium expansion

PHP share price and NAV



Source: Hardman & Co Research, PHP statements and accounts

Main points of 2015 results

PHP's pipeline of forward-funding (with exclusive first refusal) and also acquisitions is robust and now includes ROI

First forward funding investments into the Republic of Ireland are in solicitors' hands. The government typically represents 60-75% of income, secured on 20+ years lease terms. The remainder of the tenants are primary health providers. MedicX announced it was entering this field six months ago. We consider the amount of new stock being developed to be sufficient to supply the appetite of buyers without significant rises in prices for some while.

PHP will receive income from developers forward-funded by PHP, in a similar fashion to its UK operations. We model £10m assets on PHP's balance sheet by end this year, £25m next, but this is subject to revision. Rents are in € as would be debt. We consider up to €100-130m as being a possible appetite – over a number of years.

The yield pickup in this market should be c200bps higher than similar UK stock.

No improvement in (upward only) rental growth

Rental growth remains just under 1% pa.

Large cost ratio fall in 2014 continues to improve 2015

The EPRA cost ratio for 2015 was 11.5% (11.4% in H2) vs 2014 12.0%. H1 benefitted from the full contribution of cost cutting which was in place for the last two months of H1 2014. Operating margins rose to 87.8% from 87.5%. Five years ago, they were 82.3%. The trend is for further rises as a function of the tiered fee structure.

Now paying quarterly dividends

First quarterly dividend of 1.28125p to be paid 26th February.

Cost of debt still falling. Term reduces to 5.9 years. We would watch for a lengthening there

Average cost of debt fell to 4.67% vs 5.15% 2014 and 5.85% 2013. Net finance costs fell in full year from £35.5m 2014 (or £34.3m excluding break fees) to £33.7m. Interestingly they did well in H1 but did rise slightly: from £17.2m 1H14 to £17.3m 1H15. For 2016, therefore, the REIT starts on a lower interest cost footing: our estimate of a rise may prove conservative. LTV 62.7% (vs 64.1% end 2014). The average length to facility maturing fell to 5.9 years from 6.2 years end 2014, with eight providers. The convertible runs to 2019. 80% of debt five years out is hedged, 36% ten years out. Headroom (post development commitments) totals £91.6m

In addition to these positive developments on Swaps and the falling trend on interest rates on new bank loans, the recent events in China which have broadened out of UK and global GDP outlook downgrades can only serve to delay the trend of rising interest rates which investors had anticipated. Our Hardman & Co estimates currently make allowance for modest rises in underlying market rates, and so we are indicating that our stance is likely to be to reduce our 2016 interest rate estimates in the coming months.

Excellent TSR, underpinned by 16% NAV rise and 19th year dividend rise Rents are rising only modestly. The 1% level had been anticipated and is in line with the market

Total shareholder returns reached 23.5% in 2015 (12.0% 2014). The NAV return was 16.3% (12.8% in 2014). In context, this was achieved through only modest revaluation driven by valuation capitalisation rates tightening (reducing), much of the revaluation stemming from the 0.9% rent increase. The total property return (an ungeared measure) was 9.7%. The broader UK measure (IPD All Property index) was 13.8%.

EPRA NAV +10%. The WAULT remains stable at 14.7 years unexpired lease. The rise includes £39.8m revaluations, of which c£10m stems from rent rises, the rest from yield tightening.

There is currently a circa 2% EPS dilution from the 2014-issued Convertible. With an initial conversion price of 97.5 pence, the unsecured convertible bond issued by the Group on 20 May 2014 is anti-dilutive to all measures of net asset value per share.

Risks and Investment case

Strengths significantly outweigh weaknesses and trends in forward estimates of EPS and of NAV are for upwards revisions

PHP's reported profits are post revaluations (up or down) of the investment portfolio. This is driven by rent rises and changes in capitalisation rates. Covenant is AAA if not even higher were that possible. Rents are upwards only. Voids are virtually non-existent. One point is the relative valuation momentum. Clearly, such a resilient portfolio has a 'low beta' and real estate stocks whose income is more GDP-related or confidence driven will perform better in a recovery cycle and worse – often much worse – in the down cycle of the real estate.

The main operational sensitivity is to changes in interest rates for longer term debt. Debt is fixed and floating, with Swaps. The average date to maturity is just a fraction under six years. This indicates that PHP has benefited from the recent trends in falling 5-10 year maturity interest rates and is 'rolling over' debt at rates which have tended to fall. There is a risk if rates rise without PHP taking 'avoiding action.' There is thus a 're-banking' risk (and opportunity) which is very manageable because the assets are robust (valuations did not move hugely even in the global financial crisis) and financial institutions willing lenders (even in the global financial crisis).

Steady dividend growth – asset backed – continues to be in prospect after 20 years' unbroken

Exposure is 100% UK currently but ROI assets are being purchased. The UK economy has performed well in 2015, boosting confidence and leading to valuation growth in property sectors. Nonetheless, investors must take appropriate cognisance of the benchmarks they the investors wish to outperform. ROI assets are valued in € with € income streams and debt. The ROI covenants are good, with c 60% rent from government and rest from the local providers such as GPs and pharmacies. There is thus somewhat higher need to monitor their default risk and the consequent contingent re-letting demand. ROI rents are typically CPI inflated.

Investment conclusion

PHP shares are appropriate for portfolios seeking a growing and securely based dividend offering, at a yield premium to the market. Given the nature of the asset portfolio, the performance will be below that of some real estate investors exposed to assets with much higher 'beta'. Over the past five years, PHP's total shareholder return compound annual rate has been over 13%. For a REIT with a portfolio squarely aimed at lower risk spectrum of assets, this is a robust performance, we consider.

The ideal macro economic mix is a GDP slowdown enhancing attractions of a safe haven, accompanied by interest rates rising only modestly if at all

PHP is run efficiently, both with regards its administrative costs and its treasury management. Its maturity profile is 5.9 years. There is a mix of fixed (sometimes fixed via Swaps) and floating rate debt. PHP has benefited from the recent trends in falling interest rates and as older debt matures there is still scope for the interest rate PHP pays to reduce further. There is a risk if rates rise without PHP taking 'avoiding action.' First, we take the view that rate rises will be modest and particularly with a view to 5-10 year interest rates, there may well be no material rise at all in the coming years. Secondly, PHP actively and successfully manages treasury risk. We thus see a policy of funding with medium-term (as opposed to very long) maturity profile debt as being one which suits and benefits PHP and its shareholders.

PHP is delivering against its own strategic objectives. It has delivered resilient and strong progressive returns. It has grown the portfolio. It has increased its efficiencies. Funding has been derived from a diversified range of providers.

One point to note. Original investors at PHP float have seen dividends of nearly 3x the share price being paid to them. The quantum (and sustainability) of dividends are absolutely crucial here.

Financials & Investment case

Summary Financial

Profit & Loss account								
Year end December £m	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**
Total Income	26.9	30.7	33.2	42.0	60.0	63.1	67.8	72.7
Rise in income %	*26.3*	*14.0*	*8.2*	*26.5*	*42.9*	*5.2*	*7.4*	*7.2*
Operating Profit	21.9	25.1	27.6	35.5	52.5	55.4	59.7	64.2
Operating profit margin %	*82.3*	*82.9*	*83.9*	*84.7*	*87.5*	*87.8*	*88.1*	*88.3*
Admin expenses as % net rental income	*17.7*	*17.1*	*16.0*	*14.7*	*11.5*	*10.9*	*10.6*	*10.3*
Net Finance Costs	-12.7	-15.4	-21.8	-26.9	-35.5	-33.7	-35.0	-37.2
Adjusted Pre-tax Profit	**9.7**	**11.0**	**7.3**	**9.5**	**18.2**	**21.7**	**24.7**	**27.0**
Reported Pre-tax Profit	25.2	11.4	1.1	20.2	36.9	56.0	34.7	37.0
Adjusted EPS (p) excludes all reval'n	**3.9**	**4.1**	**2.5**	**2.7**	**4.1**	**4.8**	**5.4**	**5.6**
Reported EPS (p)	10.3	4.8	0.5	5.7	8.3	12.6	7.7	7.9
Dividend Per Share (p)	**4.38**	**4.50**	**4.63**	**4.75**	**4.88**	**5.00**	**5.15**	**5.38**
Rise in dividend %	*2.9*	*2.9*	*2.8*	*2.7*	*2.6*	*2.6*	*3.0*	*4.5*
Dividend cover (dil adj) %	*88.2*	*91.4*	*54.3*	*56.1*	*84.0*	*97.4*	*105.9*	*104.2*
Shares in Issue, No., Avge	250.4	266.9	290.8	356.4	444.4	445.6	452.7	467.7
EPRA Shareholders' Funds	195.7	217.5	230.4	330.9	354.2	391.6	423.8	455.3
Cash	0.9	0.1	25.1	9.3	12.1	2.9	5.3	8.8
Net debt	-266.0	-301.2	-377.9	-587.2	-655.2	-694.7	-744.4	-792.9
NAV (p)	**65.6**	**61.5**	**59.4**	**70.0**	**69.6**	**77.6**	**82.0**	**86.1**
EPRA NAV (p)	**77.9**	**79.6**	**75.7**	**76.5**	**79.7**	**88.0**	**92.1**	**95.8**
Rise in NAV %	*6.2*	*-6.2*	*-3.5*	*18.0*	*-0.6*	*11.5*	*5.7*	*4.9*
Rise in EPRA NAV %	*11.3*	*2.2*	*-4.9*	*1.0*	*4.2*	*10.4*	*4.7*	*4.0*
Debt LTV %	56.1	56.7	61.7	61.6	64.1	63.1	63.1	62.9

Source: PHP report accounts. Estimates: Hardman & Co

Dividends are now paid quarterly, first end February.

LTV: measured on gross basis. End 2015 LTV was 62.7% under the standard measure.

Convertible. Completion took place in May 2014 for £75m of senior, unsecured guaranteed Convertible Bonds due 2019 plus an additional £7.5m of Bonds pursuant to over-subscription (Greenshoe). Bonds carry a coupon of 4.25% and are convertible into preference shares of the Issuer which will be automatically be exchanged to ordinary shares. The initial conversion price was set at 97.5p, representing a premium of 16.0% above the volume weighted average price of the Company's Shares from launch to pricing. Under the terms of the Bonds, the Company will have the right to settle any conversion rights entirely in Shares, in cash or with a combination of Shares and cash. When the Group issued its Convertible Bond in May 2014, the terms of the bond included protection for the bondholders should dividend payments in excess of 4.875 pence per share be made in a financial year. The total payment to be made in 2015 will exceed that sum, but due to the de-minimis thresholds included in the bond terms, there will be no impact on the conversion price of the bond which will remain at 97.5 pence per share.

The effect of the Convertible is re-lutive to NAV (we do not adjust for this).

Profit & Loss

► Note that we model a potential minor (£18m) 2016E and 2017E equity issues to maintain stable LTV whilst investing £70m in investment properties each year.

Profit & Loss account

Year end December £m	**2011**	**2012**	**2013**	**1H14**	**2014**	**1H15**	**2015**	**2016E**	**2017E**
Rental income total received	30.3	32.9	41.9		60.0		63.1	67.8	72.7
Finance Lease Income	0.3	0.3	0.1		0.0		0.0	0.0	0.0
Total Income	30.7	33.2	42.0	*29.4*	60.0	*31.0*	63.1	67.8	**72.7**
Direct Property Expenses	0.4	0.4	0.4		0.7		0.9	1.0	1.1
Administrative Expenses	5.1	5.2	6.1		6.8		6.8	7.1	7.4
Total Expenses	5.5	5.6	6.5		7.5		7.7	8.1	8.5
Operating Profit	**25.1**	**27.6**	**35.5**	***25.4***	**52.5**	***27.2***	**55.4**	**59.7**	**64.2**
Operating margin %	*82.9*	*83.9*	*84.7*		*87.5*		*87.8*	*88.1*	*88.3*
Devt loan interest, other income	0.4	0.5	0.2		1.0		0.7	0.5	0.5
Swap interest paid	-8.8	-6.7	-7.7		-7.6		-6.7	-6.0	-6.7
Bank, bond loan interest, fees	-5.8	-14.1	-18.5		-27.7		-27.7	-29.5	-31.0
Break fees (excluded from Adj EPS fig.)	-1.3	-1.5	-0.9		-1.2		0.0	0.0	0.0
Net Finance Costs	**-15.4**	**-21.8**	**-26.9**	***-18.1***	**-35.5**	***-17.3***	**-33.7**	**-35.0**	**-37.2**
Adjusted Pre-tax Profit	**11.0**	**7.3**	**9.5**	***7.3***	**18.2**	***9.9***	**21.7**	**24.7**	**27.0**
Net revaluation on portfolio	10.6	-1.8	2.9	*16.1*	29.2	*23.9*	39.8	10.0	10.0
Fair value gain on derivatives	-8.0	-2.9	11.4	*1.1*	-2.5	*-1.3*	1.0	0.0	0.0
Fair value on Convertible					-4.5		-6.5		
Non recurring expenses	0.3	0.0	-2.7	*-2.4*	-2.4		0.0	0.0	0.0
Reported Pre-tax Profit	11.4	1.1	20.2	*22.0*	36.9	*32.4*	56.0	34.7	37.0
Tax Charge	0.0	0.0	0.0		0.0		0.0	0.0	1.0
Adjusted EPS (p) excludes all reval'n	**4.1**	**2.5**	**2.7**	***1.8***	**4.1**	***2.2***	**4.8**	**5.4**	**5.7**
Adjusted EPS (p) as above, excl Convertible	4.1	2.5	2.7	*1.8*	4.1	*2.2*	4.9	5.5	5.8
Reported EPS (p)	4.8	0.5	5.7	*5.0*	8.3	*7.3*	12.6	7.7	7.9
Dividend Per Share (p)	**4.50**	**4.63**	**4.75**	***2.44***	**4.9**	***2.5***	**5.00**	**5.15**	**5.38**
Shares in Issue, No., Avge	266.9	290.8	356.4	*444.4*	444.4	*445.2*	445.6	452.7	467.7
Fully diluted shares (convertible)					496.0		530.8	537.9	552.9

Source: PHP report accounts and estimates: Hardman & Co

Rent rise estimates: These are driven by assumed 1% inflation and expansion in the physical portfolio. Expansion in ROI has a positive – but initially very minor – effect.

Rise in interest charge: Note this includes lower swaps 2016 and some new swaps being instigated.

Shares in issue: note the modest increase, through share issuance funding asset purchases through a combination of debt and equity.

Swaps. Swaps were repaid in 2015 and we model new swaps being taken out in the near future. Note the very significant reduction in the proportion of the interest charge relating to swaps over the period shown above.

Loan to value, highlighted on the following table, has scope to rise further as a function of unsecured debt.

Balance sheet

- Note, debt includes revaluation of convertible liability (as share price rises), thus change in debt does not match cash flow
- By end 2017 we estimate c€20m debt.

Balance Sheet

Year end December £m	2013	2014	2015	2016E	2017E
Investment Properties - Start of Period	622.4	941.5	1026.2	1100.6	1180.6
Additions to Portfolio	316.2	55.5	34.6	70.0	70.0
Revaluations	2.9	29.2	39.8	10.0	10.0
Non current assets					
Investment Properties - End of Period	941.5	1026.2	1100.6	1180.6	1260.6
Finance Leases	0.5	0.0	0.0	0.0	0.0
Interest rate swaps	0.0	0.0	0.0	0.0	0.0
Sub total: Non-Current Assets	942.0	1026.2	1100.6	1180.6	1260.6
Current assets					
Receivables	4.8	5.7	4.1	2.6	2.6
Finance Leases etc	0.0	0.0	0.0	0.0	0.0
Cash + Short Term Investments	9.3	12.1	2.9	5.3	8.8
Sub total: Current Assets	14.1	17.8	7.0	7.9	11.4
Total Assets	**956.1**	**1044.0**	**1107.6**	**1188.5**	**1272.0**
Current liabilities					
Tax & REIT Conversion Charges Payable	0.0	0.0	0.0	0.0	0.0
Deferred Rental Income	11.9	12.3	13.2	10.0	10.0
Trade and Other Payables	16.3	14.2	16.1	16.0	16.0
Term loans	1.9	0.7	0.9	1.0	1.0
Interest Rate Swaps	7.6	5.8	4.7	4.7	4.7
Sub total: Current Liabilities	37.7	33.0	34.9	31.7	31.7
Non current liabilities					
Term Loan over 1 year, bond	594.6	666.6	696.7	748.7	800.7
Interest Rate Swaps	21.5	35.2	30.6	30.6	30.6
REIT Charge	0.0	0.0	0.0	0.0	0.0
Sub total: Non-Current Liabilities	616.1	701.8	727.3	779.3	831.3
Total Liabilities	**653.8**	**734.8**	**762.2**	**811.0**	**863.0**
Shareholders' Funds	**302.3**	**309.2**	**345.4**	**377.5**	**409.0**
EPRA Shareholders' Funds	**330.9**	**354.2**	**391.6**	**423.8**	**455.3**
Shares in Issue at Period End, No, m.	444.4	444.4	445.2	460.2	475.2
NAV per Share p.	**70**	**70**	**78**	**82**	**86**
EPRA NAV per Share p.	**76**	**80**	**88**	**92**	**96**
Net Debt	**587.2**	**655.2**	**694.7**	**744.4**	**792.9**

Source: PHP report accounts and estimates: Hardman & Co

Cashflow

► Note that we model modest issuance of equity in 2016, facilitating an acceleration in purchases of investment property in 2016E.

Cashflow					
Year end December £m	**2013**	**2014**	**2015**	**2016E**	**2017E**
Operating activities					
Profit before taxation (excl derivatives)	6.0	36.9	56.0	34.7	37.0
Adjustments for:					
Net valuation changes on investment property	-2.9	-29.2	-39.8	-10.0	-10.0
Profit on disposal of investment property	0.0	0.0	0.0	0.0	0.0
Financial income receivable	0.0	0.0	0.0	0.0	0.0
Finance costs payable	23.3	35.5	33.7	35.0	37.0
Sub-total	**26.4**	**43.2**	**49.9**	**59.7**	**64.2**
Increase in trade and other receivables	4.4	-0.5	1.0	-0.5	-0.5
Increase in trade and other payables	0.4	-2.0	2.1	0.5	0.5
Interest paid	-26.9	-35.5	-37.0	-35.0	-37.2
Interest received	0.0	0.5	1.3	0.0	0.0
Taxation (& REIT) paid	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	**4.3**	**5.7**	**17.3**	**24.7**	**27.0**
Investing activities					
Acquisitions net of cash acquired, other	-232.5	0.0	0.0	0.0	0.0
Proceeds from sale of investment properties	0.0	0.0	0.0	0.0	0.0
Additions to investment properties	-58.6	-55.5	-29.5	-70.0	-70.0
Net cash flow operating and investing	**-286.8**	**-49.8**	**-12.2**	**-45.3**	**-43.0**
Financing activities					
Net proceeds from issue of share capital	93.6	2.5	-0.1	18.0	18.0
Dividends paid	-16.1	-20.7	-21.1	-22.2	-23.5
Net cash flow (change in debt)	-209.3	-68.0	-33.4	-49.5	-48.5
Net proceeds of long-term borrowings	-16.3	72.0	24.1	52.0	52.0
Net cash inflow from financing activities	61.2	53.8	2.9	47.8	46.5
Net debt	**587.2**	**655.2**	**694.9**	**744.4**	**792.9**

Source: PHP report accounts and estimates: Hardman & Co

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Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399

Follow us on Twitter @HardmanandCo

Hardman Team

Management Team			
+44 (0)20 7929 3399			
John Holmes	Chairman	jh@hardmanandco.com	+44 (0)207 148 0543
Keith Hiscock	CEO	kh@hardmanandco.com	+44 (0)207 148 0544

Marketing / Investor Engagement		
+44 (0)20 7929 3399		
Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Neil Pidgeon	nrp@hardmanandco.com	+44 (0)207 148 0546

Analysts			
+44 (0)20 7929 3399			
Agriculture		**Bonds**	
Doug Hawkins	dh@hardmanandco.com	Brian Moretta	bm@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com		
Meghan Sapp	ms@hardmanandco.com		
Building & Construction		**Consumer & Leisure**	
Tony Williams	tw@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Mike Foster	mf@hardmanandco.com	Steve Clapham	sc@hardmanandco.com
Financials		**Life Sciences**	
Brian Moretta	bm@hardmanandco.com	Martin Hall	mh@hardmanandco.com
Media		**Mining**	
Derek Terrington	dt@hardmanandco.com	Ian Falconer	if@hardmanandco.com
Oil & Gas		**Property**	
Stephen Thomas	st@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com		
Services		**Social Impact**	
Mike Foster	mf@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Special Situations		**Technology**	
Steve Clapham	sc@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Paul Singer	ps@hardmanandco.com		

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com