

# Primary Health Properties

AGM statement shows progress as expected

Q121 trading update

Real estate

Primary Health Properties (PHP) has issued a trading update covering the three months to 31 March 2021 (Q121). The existing portfolio continues to perform well, as expected, and while acquisition activity has been light amid a highly competitive investment market, progress continues with rent reviews and asset management projects, forward-funded developments and the recently acquired direct development pipeline.

Year end	Net rental income (£m)	Adj earnings* (£m)	Adj EPS** (p)	Adj EPRA*** NTA/share (p)	DPS (p)	P/NTA (x)	Yield (%)
12/19	115.7	59.7	5.5	107.9	5.60	1.38	3.8
12/20	131.2	73.1	5.8	112.9	5.90	1.32	4.0
12/21e	137.4	82.8	6.3	113.8	6.20	1.31	4.2
12/22e	142.4	86.6	6.5	117.3	6.40	1.27	4.3

Note: \*Excludes valuation movements, amortisation of fair value adjustment to acquired debt and other exceptional items. \*\*Non-diluted. \*\*\*Net tangible assets; adjusts for fair value of derivative interest rate contracts and convertible bond, deferred tax and fair value adjustment on acquired debt.

## Quarterly focus on asset management

Robust (more than 99%) rent collection continues, supporting quarterly DPS payments of 1.55p per share with an annual target of a fully covered 6.2p (+5.1% versus FY20). PHP has exercised discipline over acquisitions in a very competitive market, acquiring just one asset in the quarter, in Ireland, for €3.8m, although we expect this to pick up. Meanwhile, completed rent reviews at an average 1.7% pa increase added £0.5m pa to rent roll, while 13 live asset management projects (seven completed in Q121) will add £0.3m pa to rent roll and extending lease terms. The six forward funding projects progressed, to schedule and on budget, with one completed in Q1 and three due to complete in Q2. More of the £80m of development projects acquired as part of the management internalisation have gone live (now four with a value of £21m) and the medium-term pipeline has increased to £127m.

## Well placed to support health service investment

The long-term need for primary healthcare facilities is driven by demographic trends and is relatively unaffected by economic conditions. In both the UK and Ireland, populations are growing and ageing, with more complex healthcare needs. In the nearer term there is no sign that the pandemic is reducing the need for primary care facilities, despite the use of online and telephone appointments, particularly for front-line triage. Indeed, the need for modern, integrated, local primary healthcare facilities is becoming yet more pressing in order to relieve the pressure being placed on hospitals. PHP is well-placed to help meet this need for investment and grow further; it has c £335m of available funding headroom and a strong off-market pipeline of potential acquisitions amounting to c £230m.

## Valuation: Secure and growing income

Income visibility is strong, with long leases and substantially upward-only rents, 90% backed directly or indirectly by government bodies, with little exposure to the economic cycle or fluctuations in occupancy. We expect an FY21e DPS of 6.2p, fully covered by earnings, representing a yield of 4.2%.

13 May 2021

**Price** 149p  
**Market cap** £2,107m

Net debt (£m) at 31 March 2021	1,081
Net LTV as at 31 March 2021 (pro-forma basis)	41.9%
Shares in issue	1,414.4m
Free float	97%
Code	PHP
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	0.8	1.9	(5.0)
Rel (local)	(0.5)	(4.0)	(21.5)
52-week high/low	163.2p	138.8p	

## Business description

Primary Health Properties is a long-term investor in primary healthcare property in the UK and the Republic of Ireland. Assets are mainly long-let to GPs and the NHS or HSE, organisations backed by the UK and Irish governments, respectively. The tenant profile and long average lease duration provide an exceptionally secure rental income stream.

## Next events

H121 period end	30 June 2021
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## Analyst

Martyn King +44 (0)20 3077 5745

[financials@edisongroup.com](mailto:financials@edisongroup.com)

[Edison profile page](#)

**Primary Health Properties is a research client of Edison Investment Research Limited**

**Exhibit 1: Financial summary**

Year end 31 December (£m)	2018	2019	2020	2021e	2022e
<b>PROFIT &amp; LOSS</b>					
Net rental income	76.4	115.7	131.2	137.4	142.4
Administrative expenses	(9.9)	(12.3)	(13.2)	(9.6)	(9.7)
EBITDA	66.5	103.4	118.0	127.8	132.7
Net result on property portfolio	36.1	49.8	51.4	42.2	45.0
Exceptional items related to corporate acquisition	0.0	(148.6)	0.0	(35.7)	0.0
Operating profit before financing costs	102.6	4.6	169.4	134.4	177.7
Finance income	0.1	1.4	1.2	1.0	1.6
Finance expense	(29.8)	(42.6)	(43.0)	(42.8)	(44.4)
Net finance expense	(29.7)	(41.2)	(41.8)	(41.8)	(42.9)
Net other income/expense	1.4	(33.6)	(15.2)	0.0	0.0
Profit Before Tax	74.3	(70.2)	112.4	92.5	134.9
Tax	0.0	(1.1)	(0.4)	0.0	0.0
Profit After Tax (FRS 3)	74.3	(71.3)	112.0	92.5	134.9
Adjusted for the following:					
Net gain/(loss) on revaluation	(36.0)	(48.4)	(51.3)	(42.2)	(45.0)
Profit on disposal	(0.1)	(1.4)	(0.1)	0.0	0.0
Fair value gain/(loss) on derivatives & convertible bond	(1.4)	33.6	15.2	0.0	0.0
Exceptional items related to corporate acquisition	0.0	138.4	0.0	35.7	0.0
Deferred tax	0.0	1.1	0.4	0.0	0.0
EPRA earnings	36.8	52.0	76.2	86.0	89.8
Exceptional item		10.2	0.0	0.0	0.0
Amortisation of fair value adjustment to acquired debt		(2.5)	(3.1)	(3.2)	(3.2)
Adjusted EPRA earnings	36.8	59.7	73.1	82.8	86.6
Period end number of shares (m)	769.1	1,216.3	1,315.6	1,327.0	1,327.0
Average Number of Shares Outstanding (m)	708.6	1,092.0	1,266.4	1,324.2	1,327.0
Fully diluted average number of shares outstanding (m)	732.7	1,138.5	1,368.4	1,426.1	1,429.0
Basic IFRS EPS (p)	10.5	(6.53)	8.8	7.0	10.2
Basic adjusted EPRA EPS (p)	5.2	5.5	5.8	6.3	6.5
Diluted adjusted EPRA EPS (p)	5.2	5.4	5.7	6.1	6.4
Dividend per share (p)	5.400	5.600	5.900	6.200	6.400
Dividend cover (Adj. EPRA earnings/dividends paid)	101%	101%	100%	101%	102%
EPRA cost ratio	14.3%	12.0%	11.9%	8.7%	8.5%
<b>BALANCE SHEET</b>					
Non-current assets	1,503.5	2,413.6	2,576.1	2,727.1	2,893.7
Investment properties	1,502.9	2,413.1	2,576.1	2,727.1	2,893.7
Other non-current assets	0.6	0.5	0.0	0.0	0.0
Current Assets	10.5	159.8	121.0	32.5	25.5
Cash & equivalents	5.9	143.1	103.6	15.1	8.1
Other current assets	4.6	16.7	17.4	17.4	17.4
Current Liabilities	(134.5)	(66.0)	(68.1)	(61.7)	(61.7)
Current borrowing	(102.4)	(6.1)	(6.4)	0.0	0.0
Other current liabilities	(32.1)	(59.9)	(61.7)	(61.7)	(61.7)
Non-current liabilities	(591.5)	(1,278.9)	(1,214.6)	(1,255.6)	(1,365.2)
Non-current borrowings	(573.7)	(1,257.8)	(1,206.5)	(1,247.5)	(1,357.1)
Other non-current liabilities	(17.8)	(21.1)	(8.1)	(8.1)	(8.1)
Net Assets	788.0	1,228.5	1,414.4	1,442.3	1,492.3
Derivative interest rate swaps	17.2	13.0	0.1	0.1	0.1
Change in fair value of convertible bond	3.4	22.7	25.0	25.0	25.0
Other EPRA adjustments	0.0	48.6	45.8	42.6	39.4
Adjusted EPRA net tangible assets (NTA)	808.6	1,312.8	1,485.3	1,510.0	1,556.8
IFRS NAV per share (p)	102.5	101.0	107.5	108.7	112.5
Adjusted EPRA NTA per share (p)	105.1	107.9	112.9	113.8	117.3
<b>CASH FLOW</b>					
Operating Cash Flow	68.5	94.0	118.9	126.2	131.1
Net Interest & other financing charges	(35.1)	(52.9)	(65.9)	(42.2)	(43.3)
Tax	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	(101.9)	(47.4)	(102.8)	(107.2)	(119.9)
Net proceeds from issue of shares	111.0	97.6	136.8	0.0	0.0
Debt drawn/(repaid)	(5.6)	110.5	(58.4)	35.0	110.0
Equity dividends paid (net of scrip)	(34.7)	(54.4)	(69.1)	(82.1)	(84.9)
Other cash movements and FX	0.6	(11.9)	1.6	(18.2)	0.0
Net change in cash	2.1	137.2	(39.5)	(88.5)	(7.0)
Opening cash & equivalents	3.8	5.9	143.1	103.6	15.1
Closing net cash & equivalents	5.9	143.1	103.6	15.1	8.1
Debt as per balance sheet	(676.1)	(1,263.9)	(1,212.9)	(1,247.5)	(1,357.1)
Convertible bond fair value adjustment	3.4	22.7	25.0	25.0	25.0
Unamortised borrowing costs	(6.4)	(14.6)	(13.8)	(11.0)	(8.2)
Acquired debt fair value a	0.0	45.4	42.4	39.2	36.0
Net debt	(673.2)	(1,067.3)	(1,055.7)	(1,179.2)	(1,296.2)
Net LTV	44.8%	44.2%	41.0%	43.2%	44.8%

Source: PHP historical data, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia