

Primary Health Properties

Interim results

Positively as expected

As may be expected from Primary Health Properties' (PHP) robust business model and the essential role that its assets play in supporting the delivery and modernisation of primary healthcare provision in both the UK and Ireland, H121 results provided few surprises. The existing portfolio performed well, and while acquisition activity was light amid a highly competitive investment market, progress was made 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 | 1.56 | 3.3 |
| 12/20 | 131.2 | 73.1 | 5.8 | 112.9 | 5.90 | 1.49 | 3.5 |
| 12/21e | 136.1 | 82.3 | 6.2 | 117.0 | 6.20 | 1.44 | 3.7 |
| 12/22e | 140.5 | 85.8 | 6.5 | 120.5 | 6.40 | 1.39 | 3.8 |

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.

H121 driven by organic growth and lower costs

H121 adjusted earnings increased by 13% to £40.7m or 3.1p per share, driven by organic rental growth, reduced borrowing cost, and expense savings related to management internalisation (estimated to reach £4.0m pa). The EPRA cost ratio fell to a sector-leading 9.0%. While a competitive investment market restricted acquisitions, it boosted valuations. Adjusted NTA per share rose 2.2% to 115.4p and including DPS paid of 3.1p (+5.1%) the adjusted NTA total return was 5.0%. We expect investment commitments to pick up in H221 and our forecasts are little changed other than an increase in adjusted NTA.

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. There is no sign that the pandemic has reduced 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 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 pipeline of identified potential acquisitions, asset management projects and developments.

Valuation: Securely growing income

PHP's valuation is driven by income visibility with good prospects for growth: long and substantially upwards-only leases, 90% backed directly or indirectly by government bodies, with little exposure to the economic cycle or fluctuations in occupancy. The FY21e DPS of 6.2p represents a yield of 3.7%, with good prospects for DPS growth, fully covered by adjusted earnings, and supports the premium to NAV.

Real estate

9 August 2021

Price 166p
Market cap £2,201m

| | |
|-------------------------------|----------|
| Net debt (£m) at 30 June 2021 | 1,085 |
| Net LTV at 30 June 2021 | 40.9% |
| Shares in issue | 1,330.2m |
| Free float | 97% |
| Code | PHP |
| Primary exchange | LSE |
| Secondary exchange | N/A |

Share price performance



| | | | |
|------------------|--------|--------|--------|
| % | 1m | 3m | 12m |
| Abs | 3.8 | 10.7 | 6.8 |
| Rel (local) | 3.1 | 8.7 | (12.3) |
| 52-week high/low | 166.8p | 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

| | |
|---------------|----------------|
| Q321 DPS paid | 20 August 2021 |
|---------------|----------------|

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H121 performance ‘positively’ as expected

As may be expected from the robustness of PHP’s business model and the essential nature that its assets play in supporting the delivery and modernisation of primary healthcare provision in both the UK and Ireland, the H121 results provided few surprises. With 90% of rental income funded by government bodies, more than 99% of H121 rents have been collected and vacancy remains minimal (occupancy of 99.7%). Dividend payments have been unaffected by the pandemic and PHP is well into its 25th year of uninterrupted DPS growth. PHP has been actively working with the health services and general practitioner (GP) tenants to help them better utilise group properties for deployment in the front line of the current health crisis and has meanwhile continued to actively deploy capital, in many cases bringing additional new-build, high-quality facilities to the sector. H121 acquisition activity was light amid a highly competitive investment market, but the pipeline of investment opportunities has continued to grow while progress continued with rent reviews and asset management projects, forward-funded developments and the recently acquired direct development pipeline. Meanwhile, the successfully completed internalisation of the group’s management structure (in January 2021) began to deliver immediate cost savings, expected to be c £4.0m on an annual basis, further reducing the EPRA cost ratio, which is now the lowest within the UK real estate investment trust (REIT) sector.

The highlights of the interim results were:

- H121 adjusted earnings (EPRA earnings further adjusted to exclude the non-cash positive amortisation on the fair value adjustment on the MedicX fixed rate debt at acquisition) increased by £4.7m or 13% to £40.7m (H120: £36.0m). Growth was driven by the cost savings related to management internalisation, rental growth and a reduction in the cost of borrowing.
- Administrative costs were £1.4m (c 25%) lower at £4.3m compared with £5.7m in H120 and the EPRA cost ratio reduced further to 9.0% (FY20: 11.9%).
- Included in IFRS earnings, the net valuation surplus of £66.9m was driven by yield compression, rent reviews and asset management projects.
- IFRS earnings also included £37.0m of one-off costs in relation to the management internalisation (exceptional termination payment, impairment of goodwill and transaction costs), a small negative fair value adjustment (£0.2m) in respect of interest rate derivatives and the convertible bond, and a £1.5m gain on the amortisation of the fair value adjustment on the MedicX fixed rate debt at acquisition.
- Adjusted EPRA net tangible assets, or NTA, (EPRA NTA adjusted for the negative fair value adjustment on the MedicX fixed rate debt at acquisition) increased by 2.5p or 2.2% to 115.4p during H121 compared with end-FY20 and by 6.3p or 5.8% compared with end-H120. Including DPS paid, the EPRA NTA total return in the period was 5.0%.
- The two quarterly distributions in the period amounted to 3.1p per share, a 5.1% increase compared with H120, and a third quarterly DPS of 1.55p has been declared for Q3 for payment in November. Adjusting for dividends satisfied by scrip share issuance, dividends paid were effectively (99%) covered by adjusted earnings.

Exhibit 1: Summary of H121 financial performance

| £m unless stated otherwise | H121 | H120 | H121/H120 | H220 |
|--|--------------|--------------|--------------|--------------|
| Net rental income | 67.7 | 64.8 | 4.5% | 66.4 |
| Administrative expenses | (4.3) | (5.7) | -24.6% | (5.9) |
| Performance incentive fee accrual (PIF) | (0.7) | (0.8) | -12.5% | (0.8) |
| Net finance expense | (22.0) | (22.3) | -1.3% | (22.6) |
| Basic adjusted earnings* | 40.7 | 36.0 | 13.1% | 37.1 |
| Amortisation of fair value adjustment on acquired debt | 1.6 | 1.5 | | 1.6 |
| Costs/charges relating to acquisition of Nexus | (29.0) | 0.0 | | 0.0 |
| Basic EPRA earnings | 13.3 | 37.5 | | 38.7 |
| Property revaluation | 66.9 | 10.5 | | 40.8 |
| Profit on sale of properties | 0.0 | 0.0 | | 0.1 |
| Fair value loss on derivatives | (0.7) | (8.1) | | (4.8) |
| Fair value gain/(loss) on convertible bond | 0.5 | (0.3) | | (2.0) |
| Costs/charges relating to acquisition of Nexus | (8.0) | 0.0 | | 0.0 |
| Tax charge | (0.6) | (0.1) | | (0.3) |
| Basic IFRS earnings | 71.4 | 39.5 | | 72.5 |
| Basic IFRS EPS (p) | 5.4 | 3.2 | | 5.5 |
| Basic EPRA EPS (p) | 1.0 | 3.1 | | 2.9 |
| Basic adjusted EPS (p) | 3.1 | 3.0 | 3.6% | 2.8 |
| DPS (p) | 3.10 | 2.95 | 5.1% | 2.95 |
| Dividend cover** | 0.99 | 1.00 | | 0.99 |
| Adjusted EPRA NAV per share (p)*** | 115.4 | 109.1 | 5.8% | 112.9 |
| EPRA NAV total return | 5.0% | 3.8% | | 6.2% |
| Investment portfolio (bn) | 2.66 | 2.51 | | 2.58 |
| Portfolio net initial yield (NIY) | 4.70% | 4.86% | | 4.81% |
| Net LTV | 40.9% | 45.8% | | 41.0% |
| EPRA cost ratio | 9.0% | 11.6% | | 12.3% |

Source: PHP data. Note: *Adjusted earnings excludes valuation movements, amortisation of acquired fixed rate debt revaluation and other exceptional items. **Dividend cover is EPRA earnings as a percentage of dividends declared. ***Adjusted EPRA NAV excludes fair value movements in derivative interest rate contracts and convertible bonds, acquired fixed rate debt revaluation and deferred tax.

Portfolio update: Continuing to invest in asset quality and rental growth

At 30 June 2021, PHP's portfolio of 514 assets was externally valued at £2.65bn with a contracted rent roll of £136.1m. The £0.9m growth in the rent roll during H121 was predominantly organic and includes a negative £0.6m FX translation impact in respect of the Irish portfolio. Rent reviews and asset management projects added £1.3m, while PHP's disciplined approach to acquisitions was reflected in an unusually low contribution from acquisitions, with just one standing asset added in the period, contributing £0.2m. PHP highlights a lack of availability of suitable product in H121 and a highly competitive market reflected in strong pricing. It notes the importance of not only identifying the right assets but acquiring them at the right price. The strength of market competition for assets was reflected in the valuation of PHP's own portfolio, which generated a valuation surplus of £66.9m, or 2.6%, driven primarily by compression in the net initial yield (from 4.81% in December to 4.70%) in addition to rental growth.

The 19 assets in Ireland, including two under development, account for c 8% of the total by valuation, and with a focus on purpose-built, larger, multi-disciplinary medical centres their average lot size (on a fully developed basis) of c £11.4m enhances the overall portfolio average lot size of £5.2m.

With 90% of contracted rental income paid directly or indirectly by the UK and Irish governments, and the balance primarily by co-located pharmacies, covenant strength is exceptionally strong and, given the nature of the assets, vacancy is minimal (99.7% occupancy). More than 99% of H121 rents in both the UK and Ireland have been collected and Q321 is following a similar trend, with 97% already collected by 26 July with the balance expected shortly after. The weighted average

unexpired lease term (WAULT) is 11.8 years and only c 5% (£6.7m of rent roll) expires over the next three years. Of this, 75% is subject to a planned asset management initiative (see below) or terms have been agreed to renew the lease.

Exhibit 2: Portfolio summary as at 30 June 2020

| | H121 | 2020 | 2019 |
|--------------------------------|------------|------------|------------|
| Total number of properties | 514 | 513 | 488 |
| Of which properties in Ireland | 19 | 18 | 16 |
| Of which under development | 3* | 6 | 6 |
| Investment portfolio value | £2.65bn | £2.58bn | £2.41bn |
| Contracted rent roll | £136.1m | £135.2m | £127.7m |
| Net initial yield | 4.70% | 4.81% | 4.86% |
| Average lot size | £5.2m | £5.0m | £4.9m |
| Average WAULT | 11.8 years | 12.1 years | 12.8 years |
| Occupancy | 99.7% | 99.6% | 99.5% |

Source: PHP. Note: *Eastbourne Primary Care Centre in East Sussex completed in July 2021.

The portfolio provides a stream of high-quality recurring income with good potential for further growth through acquisitions of standing assets and pre-let developments, development completions, asset management and rental growth.

Strong investment pipeline driven by underlying demand

The key drivers of medium-term demand for investment in primary healthcare properties are demographic, including a growing population of elderly with increasingly complex medical needs, combined with the drive to shift healthcare delivery out of expensive and inflexible hospitals. The COVID-19 pandemic has increased the numbers of delayed and deferred hospital appointments, accelerating the migration out of hospitals, and increasing the demand for primary healthcare services despite the use by GPs of internet and telephone for initial consultations.

Although completed acquisition activity was low in H121, PHP continued to make progress with forward-funded developments, asset management projects and the recently acquired direct development pipeline as well as growing its pipeline of acquisition opportunities. While valuation yields have tightened, the accretive nature of continued acquisition-led growth has been maintained by continued reductions in marginal funding costs and administrative cost efficiencies. The immediate pipeline of potential acquisition opportunities totals c £195m across the UK (£87m) and Ireland (£108m), of which c £155m is in legal due diligence. A number of other investment and forward-funded development opportunities are being progressed.

Direct and forward-funded developments

Newly developed, pre-let, purpose-built assets provide access to high-quality assets with new, long leases of typically 25 years. PHP has always engaged in the forward funding of developments, acquiring the pre-let assets on completion, but with the acquisition of Nexus added a direct development business, Nexus Developments, and pipeline of opportunities. These can now be undertaken by PHP, on a pre-let basis, utilising its own substantial balance sheet, with the prospect of enhanced yields. On acquisition, Nexus Developments had an £80m pipeline of direct development opportunities in the UK, at varying stages of progression. The number of 'live' projects has since increased from two (with an estimated capital value of c £10m) to four (£21m), two of which are expected to be on-site by early 2022. In addition, PHP continues to bring forward a wider medium-term pipeline across 17 projects, that now amounts to c £125m.

Exhibit 3: Four directly developed primary care centres progressing towards a start on-site

| | Estimated start date | Development cost | BREEAM* rating | WAULT |
|--------------|----------------------|------------------|---------------------------|----------|
| Lincolnshire | Q421 | £4.0m | Excellent | 25 years |
| West Sussex | Q122 | £6.7m | Excellent | 25 years |
| South London | Q222 | £5.6m | Excellent | 25 years |
| North London | Q323 | £4.6m | Very good (shell fit-out) | 25 years |
| Total | | £20.9m | | |

Source: PHP. *Building Research Environmental Assessment Method

At the start of FY21 there were six forward-funded development projects on-site, of which four, with an aggregate net development cost of £20.1m, completed during H121, on time and on budget. Two larger projects, both in Ireland, with an aggregate net development cost of £21.4m, remain on-site and are scheduled to complete in Q122.

Exhibit 4: Two forward-funded developments remain on-site, both in Ireland

| | Expected completion | Net development cost | Costs to complete |
|-----------------------------|---------------------|----------------------|-------------------|
| Arklow, County Wicklow | Q122 | £15.4m (€18.0m) | £8.6m (€10.0m) |
| Enniscorthy, County Wexford | Q122 | £10.8m (€12.6m) | £8.2m (€9.6m) |
| Total | | £26.2m | £16.8m |

Source: PHP. Note: Eastbourne Primary Care Centre in East Sussex completed in July 2021.

Asset management

Asset management projects, such as property extensions, upgrades and refurbishments, are an attractive way of enhancing the quality of the portfolio and avoiding obsolescence, at the same time supporting tenants to improve their healthcare delivery, while generating additional rents and supporting lease extensions/regears. Lease extensions (ie increasing the length of the lease) increase the visibility and duration of income and enhance asset valuations. During H121, 17 projects were either completed or continue on-site with an aggregate investment requirement of £10.8m. These will generate c £0.3m of additional rental income but, just as importantly, will extend the WAULT on those properties back to 21 years. A further c 100 projects have either been approved by the PHP board or are in advanced negotiations, requiring an investment of c £46m, potentially generating an additional £1.4m of rental income and similarly extending WAULT on those premises back to an average of 22 years.

Continuing rental growth

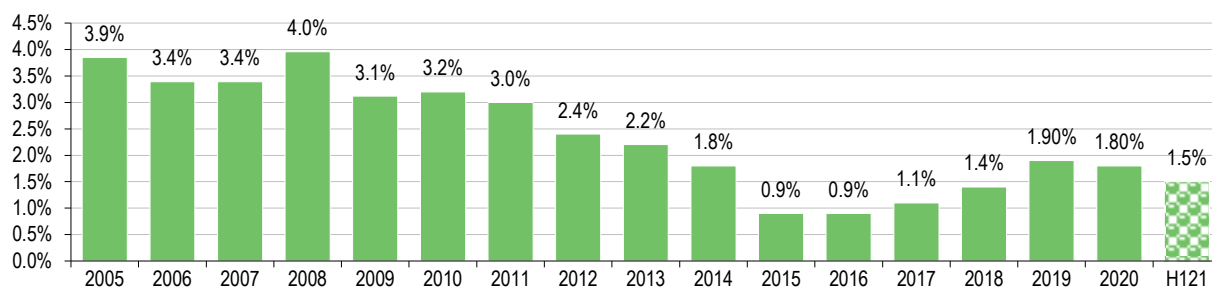
Rental growth continued in H121, adding c £1.0m to the rent roll, although the 1.5% average uplift on completed rent reviews was slightly lower than the 1.8% achieved in FY20 and 1.9% in FY19. The pandemic has had a dampening impact on pharmacy rent growth and inflation remained at low levels, while the open market rent reviews completed in the period included relatively few in London and the South-East, which tend to be higher. PHP indicated that it expects a higher rate of growth in H221 and that over the next couple of years it expects rent growth to approach the c 2% long-term trend. The average uplift on completed open market rent reviews (69% of total rents¹) were at an average 1.0% pa uplift compared with 1.3% in FY20. A substantial number of additional open market rent reviews that have been agreed in principle but not completed are expected to add c £1.2m to the rent roll, representing an average uplift of 1.2% pa.

An acceleration in open market rent reviews, typically undertaken every three years, would be significantly positive for PHP and several factors have the potential to drive this. Across the market there is evidence that open market rent reviews have failed to sufficiently capture the strong rise in land and build costs in recent years. If much needed new capacity to support the modernisation of the NHS is going to be delivered, the rents available will need to justify the investment. The

¹ Index-linked rent uplifts (25% of total rents) were at an average 2.2% and fixed uplifts (6% of total rents) were at an average 2.7% in H121.

increasing delivery of new, purpose-built premises is providing ample 'evidence', and a positive benchmark, for the district valuers with whom all rent reviews must be agreed. Increased regulatory requirements, including in respect of energy efficiency, are also driving 'specification creep', which provides further support for rent levels. Meanwhile, the requirement to reach agreement with the district valuer has contributed to a substantial backlog of outstanding rent reviews (619 tenancies representing £83m of rents) with the potential to enhance rent roll when completed.

Exhibit 5: Rental growth history (average annualised uplift on completed reviews in year)



Source: PHP data, Edison Investment Research

Financials and estimates

Our forecast for further dividend growth is unchanged, which we expect to be fully covered despite a slight reduction in our adjusted earnings forecasts due to slower than previously expected portfolio investment. Reflecting the H121 growth in asset valuations, driven primarily by yield tightening, our forecasts for NAV/EPRA NTA per share are increased.

Exhibit 6: Summary of forecast changes

| | Net rental income (£m) | | | Adjusted earnings (£m) | | | Adjusted EPS (p) | | | DPS (p) | | | Adj. EPRA NTAPS (p) | | |
|--------|------------------------|-------|--------|------------------------|------|--------|------------------|-----|--------|---------|-----|--------|---------------------|-------|--------|
| | Old | New | % chge | Old | New | % chge | Old | New | % chge | Old | New | % chge | Old | New | % chge |
| 12/21e | 137.4 | 136.1 | -1.0 | 82.8 | 82.3 | -0.6 | 6.3 | 6.2 | -0.9 | 6.2 | 6.2 | 0.0 | 113.8 | 117.0 | 3.2 |
| 12/22e | 142.4 | 140.5 | -1.3 | 86.6 | 85.8 | -1.0 | 6.5 | 6.5 | -1.0 | 6.4 | 6.4 | 0.0 | 117.3 | 120.5 | 3.2 |

Source: Edison Investment Research

Forecasts in detail

The key underlying assumptions driving our FY21 and FY22 forecasts include:

- New investment commitments of £75m in H221 and £120m in FY22, a mix of fully let completed assets and forward funding commitments in both the UK and Ireland. Our assumed FY21 commitment is reduced from £120m previously and reflecting the strength of investment demand we also assume a lower acquisition yield (a blended 4.7% compared with c 4.8% previously), similar to the current portfolio net initial yield.
- We assume a blended average 1.8% pa like-for-like rental growth.
- For FY21 we have built in the c £4.0m of annualised cost savings related to the internalisation of the management structure, with modest growth in FY22.
- We expect asset growth to be financed out of cash resources in FY21 with further debt drawn down in FY22, although the impact on finance costs is mitigated by low marginal cost of funding.
- We make no assumption of changes in market valuation yields (either up or down) and reflect the assumed rental growth in gross revaluation gains, partly offset by assumed acquisition costs. We estimate that a 0.1% decrease in the portfolio net initial yield would increase FY21e

EPRA NAV per share by c 4p, with a 0.1% increase in net initial yield having a similar negative impact.

Significant funding headroom and refinancing opportunities.

PHP's strong balance sheet position leaves it well placed to fund investment-led growth, while refinancing opportunities remain for a further reduction in the average cost of borrowing.

The end-H121 loan to value (LTV) ratio of 40.9% (or 35.2% assuming conversion of the outstanding convertible bonds) was comfortably within the target gearing range with an upper limit of 50%. Compared with the more cyclical mainstream commercial property sector, LTVs for primary healthcare investment are typically higher, recognising the highly secure, long-term nature of the cash flows, and reflected in the end-H121 interest cover ratio of 3.2 times. End-H121 funding headroom (cash plus undrawn debt) available for investment was £335.0m.

The average cost of debt at end-H121 was 3.4% (end-FY20: 3.5%) and on a fully drawn basis would fall to 3.1%, reflecting the low marginal cost of borrowing (1.7%). Although the weighted average maturity of the debt portfolio is a long 7.0 years, there are certain facilities that mature by end 2023 where, based on current market conditions, PHP is hopeful of reducing the average cost of debt further. It is already engaged in positive discussions with lenders and it hopes to be able to realise funding cost efficiencies before the end of 2021, well before the actual maturities. We have not assumed this in our forecasts.

Interest rate risk is well managed, with 100% either fixed rate or hedged. Unfettered assets of £110.5m at end-H121 provide significant flexibility in the utilisation of the debt facilities.

| Exhibit 7: Key debt metrics | | |
|---|---------------------|-------------------------|
| | 30 June 2021 | 31 December 2020 |
| | H120 | 2020 |
| Average cost of drawn debt | 3.4% | 3.5% |
| Average cost of debt - fully drawn | 3.1% | 3.1% |
| Loan to value (LTV) | 40.9% | 41.0% |
| Interest cover | 3.2 times | 2.9 times |
| Weighted average debt maturity | 7.0 years | 7.6 years |
| Total debt facilities | £1,449.1m | £1,456.8m |
| Total drawn debt | £1,157.7m | £1,159.3m |
| o/w drawn secured debt | £1,007.7m | £1,009.3m |
| o/w drawn unsecured debt | £150.0m | £150.0m |
| Total undrawn facilities and cash available | £335.0m | £361.5m |
| Unfettered assets | £110.5m | £88.4m |

Source: PHP

Valuation

Historical returns on primary healthcare assets have been higher than other sectors of the UK commercial property market, with a lower level of volatility. This has been a function of strong healthcare fundamentals, secure and more resilient income, and more muted yield shifts through the property cycle.

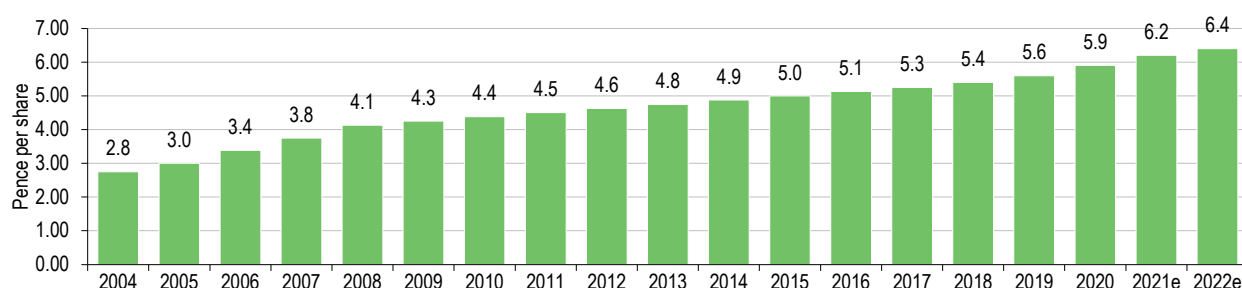
Over the past five and a half years (from end-FY15 to end-H121), PHP generated an EPRA NAV total return of 66.1% or a compound 9.7% pa (dividends added back but not reinvested). Dividends paid have accounted for a little more than half of the return, with capital returns contributing the balance including the impact of asset management, rental growth and yield tightening.

Exhibit 8: EPRA net tangible asset (NTA) total return history

| | 2016 | 2017 | 2018 | 2019 | 2020 | H121 | 5.5-years |
|--------------------------------|-------------|--------------|-------------|-------------|--------------|-------------|--------------|
| Opening EPRA NTA (p) | 87.7 | 91.1 | 100.7 | 105.1 | 107.9 | 112.9 | 87.7 |
| Closing EPRA NTA (p) | 91.1 | 100.7 | 105.1 | 107.9 | 112.9 | 115.4 | 115.4 |
| Dividends paid in period (p) | 5.13 | 5.25 | 5.40 | 5.60 | 5.90 | 3.10 | 30.4 |
| Income return | 5.8% | 5.8% | 5.4% | 5.3% | 5.5% | 2.7% | 34.6% |
| Capital return | 3.8% | 10.5% | 4.4% | 2.7% | 4.6% | 2.2% | 31.5% |
| NTA total return | 9.7% | 16.3% | 9.8% | 8.0% | 10.1% | 5.0% | 66.1% |
| Compound annual average return | | | | | | | 9.7% |

Source: PHP data, Edison Investment Research

The targeted FY20 DPS of 6.2p (+5.1% vs FY20), for which the first three quarterly payments have been made or declared, represents a prospective 3.7% dividend yield and we forecast dividends to be fully covered by adjusted earnings, with good potential for further growth.

Exhibit 9: PHP is now in its 25th year of unbroken DPS growth


Source: PHP data

Importantly, PHP's income and dividend paying capacity is backed by a secure, upwards only rent profile, c 90% funded directly or indirectly by the NHS in the UK or HSE in Ireland. Given the nature of this income stream it is tempting to draw comparison with its dividend yield and the generic yield on 10-year gilts, which increased to 0.9% earlier in 2021 on rising concern about inflation but have since fallen to c 0.5%. It is PHP's secure and growing income profile that is the driver of the share price and that provides the support for a continuing valuation premium to EPRA NAV (currently 1.4x), in our view.

In Exhibit 10 we show the key valuation and performance metrics for PHP and a group of its closest peers, including Assura, another investor in primary healthcare assets, care home investors (Impact and Target) and social housing investors (Civitas, Secure Residential Income and Triple Point). Average share price performance for the group has been ahead of the wider UK equity market and broad UK property sector over the past three years. PHP's three-year share price performance is well above the average and the strongest of the peer group. The peer group (and PHP) share price performance has continued to be positive over the past year but has been eclipsed by a rebound in the share price performance of many companies that had been harder hit by the pandemic. In valuation terms, compared with the average of the group, PHP continues to trade with a lower dividend yield and higher P/NAV, which we believe can be attributed to investor recognition of the strength of the tenant covenant, its strong balance sheet and opportunities for growth, and the strength of free cash flow, supported by its lower cost ratio.

Exhibit 10: Peer comparison

| | Price (p) | Market cap. (£m) | P/NAV* (x) | Yield** (%) | Share price performance | | | |
|----------------------------------|--------------|---------------------|---------------|----------------|-------------------------|------------|-----------|------------|
| | | | | | 1 month | 3 months | 12 months | 3 year |
| Assura | 79 | 2,113 | 1.38 | 3.6 | 4% | 8% | -2% | 40% |
| Civitas Social Housing | 119 | 751 | 1.11 | 4.5 | 5% | 5% | 7% | 17% |
| Impact Healthcare | 117 | 376 | 1.07 | 5.4 | 2% | 5% | 16% | 15% |
| Residential Secure Income | 107 | 179 | 0.99 | 4.8 | -2% | 6% | 15% | 11% |
| Target Healthcare | 124 | 573 | 1.15 | 5.4 | 6% | 6% | 14% | 9% |
| Triple Point Social Housing | 111 | 445 | 1.04 | 4.7 | 5% | 5% | 7% | 5% |
| Average | | | 1.12 | 4.7 | 3% | 6% | 9% | 16% |
| Primary Health Properties | 166 | 2,201 | 1.44 | 3.6 | 4% | 11% | 7% | 43% |
| UK property sector index | 1,923 | | | | 7% | 11% | 29% | 7% |
| UK equity market index | 4,089 | | | | 1% | 1% | 22% | -3% |

Source: Company data, Edison Investment Research, Refinitiv. Note: *Based on last reported EPRA NAV. **Based on 12-month trailing dividends declared. Prices at 6 August 2021.

Exhibit 11: Financial summary

| Year end 31 December (£m) | 2018 | 2019 | 2020 | 2021e | 2022e |
|--|---------|-----------|-----------|-----------|-----------|
| PROFIT & LOSS | | | | | |
| Net rental income | 76.4 | 115.7 | 131.2 | 136.1 | 140.5 |
| Administrative expenses | (9.9) | (12.3) | (13.2) | (9.6) | (9.8) |
| EBITDA | 66.5 | 103.4 | 118.0 | 126.5 | 130.7 |
| Net result on property portfolio | 36.1 | 49.8 | 51.4 | 88.0 | 45.1 |
| Exceptional items related to corporate acquisition | 0.0 | (148.6) | 0.0 | (37.0) | 0.0 |
| Operating profit before financing costs | 102.6 | 4.6 | 169.4 | 177.5 | 175.8 |
| Finance income | 0.1 | 1.4 | 1.2 | 0.8 | 1.0 |
| Finance expense | (29.8) | (42.6) | (43.0) | (41.8) | (42.8) |
| Net finance expense | (29.7) | (41.2) | (41.8) | (41.0) | (41.8) |
| Net other income/expense | 1.4 | (33.6) | (15.2) | (0.2) | 0.0 |
| Profit Before Tax | 74.3 | (70.2) | 112.4 | 136.3 | 134.1 |
| Tax | 0.0 | (1.1) | (0.4) | (0.6) | 0.0 |
| Profit After Tax (FRS 3) | 74.3 | (71.3) | 112.0 | 135.7 | 134.1 |
| Adjusted for the following: | | | | | |
| Net gain/(loss) on revaluation | (36.0) | (48.4) | (51.3) | (88.0) | (45.1) |
| 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 | 0.2 | 0.0 |
| Exceptional items related to corporate acquisition | 0.0 | 138.4 | 0.0 | 8.0 | 0.0 |
| Deferred tax | 0.0 | 1.1 | 0.4 | 0.6 | 0.0 |
| EPRA earnings | 36.8 | 52.0 | 76.2 | 56.5 | 89.0 |
| Exceptional item | | 10.2 | 0.0 | 29.0 | 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 | 82.3 | 85.8 |
| Period end number of shares (m) | 769.1 | 1,216.3 | 1,315.6 | 1,330.2 | 1,330.2 |
| Average Number of Shares Outstanding (m) | 708.6 | 1,092.0 | 1,266.4 | 1,327.9 | 1,327.0 |
| Fully diluted average number of shares outstanding (m) | 732.7 | 1,138.5 | 1,368.4 | 1,430.5 | 1,429.0 |
| Basic IFRS EPS (p) | 10.5 | (6.53) | 8.8 | 10.2 | 10.1 |
| Basic adjusted EPRA EPS (p) | 5.2 | 5.5 | 5.8 | 6.2 | 6.5 |
| Diluted adjusted EPRA EPS (p) | 5.2 | 5.4 | 5.7 | 6.1 | 6.3 |
| Dividend per share (p) | 5.400 | 5.600 | 5.900 | 6.200 | 6.400 |
| Dividend cover (Adj. EPRA earnings/dividends paid) | 101% | 101% | 100% | 100% | 101% |
| EPRA cost ratio | 14.3% | 12.0% | 11.9% | 8.7% | 8.7% |
| BALANCE SHEET | | | | | |
| Non-current assets | 1,503.5 | 2,413.6 | 2,576.1 | 2,737.1 | 2,886.7 |
| Investment properties | 1,502.9 | 2,413.1 | 2,576.1 | 2,735.7 | 2,885.3 |
| Other non-current assets | 0.6 | 0.5 | 0.0 | 1.4 | 1.4 |
| Current Assets | 10.5 | 159.8 | 121.0 | 30.1 | 29.2 |
| Cash & equivalents | 5.9 | 143.1 | 103.6 | 15.2 | 14.3 |
| Other current assets | 4.6 | 16.7 | 17.4 | 14.9 | 14.9 |
| Current Liabilities | (134.5) | (66.0) | (68.1) | (59.0) | (59.0) |
| Current borrowing | (102.4) | (6.1) | (6.4) | 0.0 | 0.0 |
| Other current liabilities | (32.1) | (59.9) | (61.7) | (59.0) | (59.0) |
| Non-current liabilities | (591.5) | (1,278.9) | (1,214.6) | (1,217.9) | (1,317.5) |
| Non-current borrowings | (573.7) | (1,257.8) | (1,206.5) | (1,209.5) | (1,309.1) |
| Other non-current liabilities | (17.8) | (21.1) | (8.1) | (8.4) | (8.4) |
| Net Assets | 788.0 | 1,228.5 | 1,414.4 | 1,490.3 | 1,539.4 |
| Derivative interest rate swaps | 17.2 | 13.0 | 0.1 | (1.3) | (1.3) |
| Change in fair value of convertible bond | 3.4 | 22.7 | 25.0 | 24.5 | 24.5 |
| Other EPRA adjustments | 0.0 | 48.6 | 45.8 | 43.0 | 39.8 |
| Adjusted EPRA net tangible assets (NTA) | 808.6 | 1,312.8 | 1,485.3 | 1,556.5 | 1,602.4 |
| IFRS NAV per share (p) | 102.5 | 101.0 | 107.5 | 112.0 | 115.7 |
| Adjusted EPRA NTA per share (p) | 105.1 | 107.9 | 112.9 | 117.0 | 120.5 |
| CASH FLOW | | | | | |
| Operating Cash Flow | 68.5 | 94.0 | 118.9 | 127.6 | 129.3 |
| Net Interest & other financing charges | (35.1) | (52.9) | (65.9) | (42.1) | (42.2) |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Acquisitions/disposals | (101.9) | (47.4) | (102.8) | (82.3) | (103.1) |
| Net proceeds from issue of shares | 111.0 | 97.6 | 136.8 | (0.1) | 0.0 |
| Debt drawn/(repaid) | (5.6) | 110.5 | (58.4) | 4.6 | 100.0 |
| Equity dividends paid (net of scrip) | (34.7) | (54.4) | (69.1) | (77.5) | (84.9) |
| Other cash movements and FX | 0.6 | (11.9) | 1.6 | (19.2) | 0.0 |
| Net change in cash | 2.1 | 137.2 | (39.5) | (88.5) | (0.9) |
| 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 | 14.2 |
| Debt as per balance sheet | (676.1) | (1,263.9) | (1,212.9) | (1,209.5) | (1,309.1) |
| Convertible bond fair value adjustment | 3.4 | 22.7 | 25.0 | 24.4 | 24.4 |
| Unamortised borrowing costs | (6.4) | (14.6) | (13.8) | (11.8) | (9.0) |
| 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) | (1,142.6) | (1,243.5) |
| Net LTV | 44.8% | 44.2% | 41.0% | 41.7% | 43.0% |

Source: PHP historical data, Edison Investment Research forecasts

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