Target Healthcare REIT

Q426 update

Real estate

11 August 2026

Strong FY26 underpins strong share price

Target Healthcare REIT generated a Q426 accounting total return of 2.5%, taking the FY26 total to 11.6%. Even more impressive, this has been generated with a relatively low level of gearing (end-Q426 net LTV of 16.1%) as the company makes progress with redeploying the proceeds of the late 2025 portfolio sale. We expect organic, inflation-indexed rental growth and accretive capital recycling to drive consistent earnings and growth, uncorrelated with, and independent of, heightened economic uncertainties.

Year end	Net rental income (£m)	EPRA earnings (£m)	NAV/share (£)	DPS (p)	EPS (£)	Yield (%)	P/NAV (x)
6/25	72.9	47.9	1.15	5.88	6.08	5.2	0.98
6/26e	70.9	51.1	1.22	6.03	6.55	5.4	0.92
6/27e	74.2	52.0	1.28	6.18	6.75	5.5	0.88
6/28e	76.7	52.5	1.33	6.34	6.89	5.6	0.85

Note: EPRA earnings is shown on an adjusted basis, excluding IFRS rent smoothing adjustments and including interest earned on development funding. NAV is net tangible assets throughout this report.

Consistent delivery

Q426 followed a consistent pattern of rental uplifts and asset management activity generating robust earnings and capital growth. Including DPS paid, without assuming reinvestment, the three-year accounting total return is almost 34%. We will review our forecasts in detail with the results in September, but, based on the unaudited quarterly data, NAV per share increased by 1.2% to 122.1p in Q426 and by 6.4% in FY26. FY26 DPS increased 2.5% to 6.03p, well covered by adjusted EPS of c 6.5p (FY26: 6.0p). Including two investments in Q426 (for an aggregate £28m), c £73m or 85% of the proceeds from last November's £86m portfolio sale have been redeployed at a significant yield premium. With a strong pipeline of accretive opportunities, in excess of the remaining available capital of £75m, further investment commitments are expected in the coming months.

Sustainable earnings and social benefits

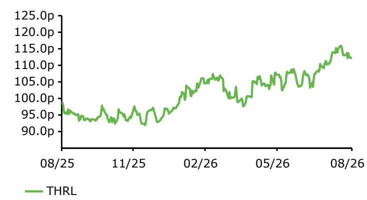
Target operates in a structurally supported market, with demographic trends and a need to improve the existing estate driving demand for the modern, high-quality residential facilities that the company invests in. These are appealing to residents (77% private pay as at December 2025), support operators in providing better, more efficient and more effective care, and provide sustainable, long-term investment income. 100% of its homes are EPC rated A or B and compliant with the minimum energy efficiency standards anticipated to apply from 2030. All of its rooms have full en suite wet-room facilities (compared with around one-third for the sector).

Defensive growth

Target provides essential care facilities, the demand for which is uncorrelated with the wider economy. Indexed rent uplifts and a long 26-year weighted average unexpired lease term provide a defensive, growing income stream in an increasingly uncertain environment. Share price performance has been strong and the discount to NAV has narrowed, but the FY27e yield of 5.5% remains well above the 10-year UK gilt yield of c 5.0%, and, unlike the fixed coupon on the gilt, we expect Target's DPS will continue to grow, with the added prospect of capital growth.

Price	**112.40p**
Market cap	**£697m**
Net cash/(debt) at 30 June 2026	£(149.1)m
Shares in issue	620.2m
Free float	100.0%
Code	THRL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.6	6.0	18.5
52-week high/low		117.0p	88.1p

Business description

Target Healthcare REIT invests in modern, purpose-built residential care homes in the UK let on long leases to high-quality care providers. It selects assets according to local demographics and intends to pay increasing dividends underpinned by structural growth in demand for care.

Next events

FY26 results	Expected September 2026

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A consistent pattern of income and capital growth

Inflation-linked rental uplifts have underpinned increasing income and capital growth in every quarter since Target listed in 2013, with the exception of the final quarter of 2022. This was the period when rising interest rates led to falling capital values across the broad commercial property sector, although healthcare property values were more robust and yields stabilised more quickly. Even within the healthcare property sector, Target has delivered a very strong property-level performance, and data to December 2025 show it has been a top-quartile performer in the MSCI Annual Healthcare Property Index for more than 10 consecutive years.

The FY26 total accounting return of 11.6% reflects dividends paid of 6.0p and growth in NAV per share of 7.3p. NAV growth included c 0.5p of earnings retention but was mostly driven by property revaluation gains. We estimate that annual rent review uplifts were at average c 3.6%. Q426 saw an additional one-off performance-related rent review, in respect of a previously re-tenanted home. With valuation yields broadly stable throughout the year (end-FY26 EPRA topped up net initial yield of 6.21% vs 6.22% at end-FY25), rental growth translated into like-for-like portfolio valuation uplifts.

Exhibit 1: Quarterly NAV total returns

	Sep-25	Dec-25	Mar-26	Jun-26	Jun-26
Pence per share	**Q126**	**Q226**	**Q326**	**Q426**	**FY26**
Opening EPRA NTA per share	**114.8**	**117.7**	**119.4**	**120.6**	114.8
Unrealised property revaluation gains/(losses)	1.3	1.5	1.1	1.6	5.5
Gain/(loss) on disposal	1.4	0.1	0.0	0.0	1.5
Property acquisition costs & other capital items	0.0	(0.3)	0.0	(0.1)	(0.4)
Gain on surrender premium received	0.0	0.2	0.0	0.0	0.2
Movement in revenue reserve	1.7	1.7	1.6	1.5	6.5
Dividend paid	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)
Closing EPRA NTA per share	**117.7**	**119.4**	**120.6**	**122.1**	**122.1**
EPRA NTA total return (excluding reinvestment of dividends)	**3.8%**	**2.7%**	**2.3%**	**2.5%**	11.6%

Source: Target Healthcare REIT data, Edison Investment Research

Active asset management returns rent collection to 100%

Since the half-year, Target has re-tenanted one asset, in Q3, and in Q4 it sold one home.

The re-tenanted asset represented 0.9% of the prevailing total rent roll, and the transfer to an existing tenant included a 12-month rent-free period in exchange for a more than 6% increase in the contractual rent and an extension of the remaining lease term by c 14 years to 35 years. Green lease clauses were also included. A capital expenditure facility of £1.6m was granted to the tenant to fund further improvements to the real estate, which, if utilised, would be rentalised at a similar investment yield.

The home sold in Q4, for which the tenant had not been paying rent, has restored rent collection to 100% (Q3: 99%). The sale price was c £3.3m, in line with book value.

Two accretive acquisitions in Q4

The operational home acquired for c £13m (including costs) during Q426 is in a strong location in Central Scotland and is trading well, with rent cover of c 2.0x. The existing operator of the home will continue as the tenant, improving portfolio diversification by increasing the overall number of tenants to 31. The home has added c £0.8m per year to passing rent (£60.6m at end-Q426), with annual inflation-linked rental increases subject to a cap and collar.

The development site acquired in Suffolk follows the granting of planning consent for the construction of a fully electric (with no fossil fuel use) 66-bed care home with 100% en suite wet-room provision. The property will also include on-site renewable energy generation and has a targeted EPC rating of 'A' and BREEAM In-Use rating of 'Excellent'. Consistent with Target's standard approach, the home is pre-let for a 35-year term to an existing portfolio tenant of the group. The development cost is capped at £15m (including the land acquisition), providing a net initial yield of c 6.0% based on actual costs.

Around £75m of available capital for further acquisitions

At end-Q426, Target had drawn debt of £200m, on which the cost is fixed at c 3.9% (including amortisation of loan fees) until at least September 2030. Adjusting for cash of £50.9m, the net loan-to-value ratio (LTV) was 16.1%. £80m of floating rate revolving credit facilities (RCF) were undrawn. The RCF facilities minimise commitment fees and provide funding flexibility as Target reinvests the proceeds of recent disposals, and the company anticipates hedging the interest rate as funds are deployed.

Including the undrawn debt and cash, and allowing for development and other commitments, around £75m of capital remains available for investment and the company has a pipeline of opportunities in excess of this. Target says that it is confident of announcing further value-accretive acquisitions in the near future, which will increase leverage towards its target of c 25%.

Exhibit 2: Balance sheet summary and gearing

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
£m unless stated otherwise	**Q425**	**Q126**	**Q226**	**Q326**	**Q426**
Investment properties at market value	930	948	895	903	924
Cash	40	44	67	66	51
Net current assets/(liabilities)	(16)	(15)	(18)	(18)	(17)
Bank loan	(242)	(248)	(204)	(204)	(200)
Net assets	**712**	**730**	**741**	**748**	**758**
Net debt	(202)	(203)	(136)	(137)	(149)
Gross LTV	26.0%	26.1%	22.7%	22.5%	21.6%
Net LTV	21.8%	21.4%	15.2%	15.2%	16.1%

Source: Target Healthcare REIT

No material change to forecasts likely

We have made small, immaterial adjustments to our FY26 forecasts to bring them in line with the unaudited quarterly data and will undertake a detailed review when the full year results are published in September. We expect a continuation of high-single-digit total accounting returns, underpinned by the impact of inflation-linked rental uplifts on earnings and, with property yields stable, NAV.

Valuation and performance

Target Healthcare REIT's share price has risen by c 60% over the past three years, generating a total return, including DPS paid, of c 90%.

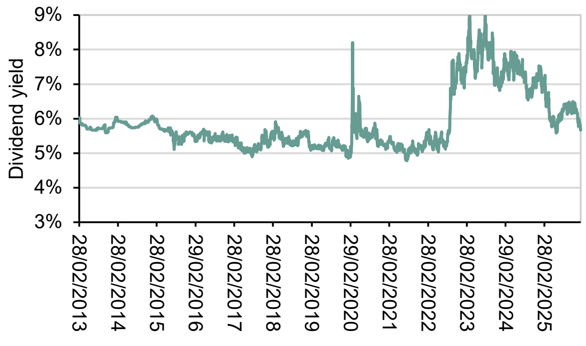
While the shares have re-rated, our forecast FY27 DPS of 6.18p represents a prospective yield of 5.5%, still a premium of c 50bp to the 10-year UK gilt yield of c 5.0%. Unlike the fixed coupon on the gilt, we expect Target's DPS will continue to grow, and contracted rental income is positively correlated to inflation. With rental growth comes the added prospect of capital growth.

The discount to EPRA NTA is now c 8%, compared with the level of c 1.1x that the shares traded at before the pandemic and the rise in interest rates. We would view a further closing of the discount as particularly positive as it would open up the possibility of equity issuance to fund further accretive acquisition growth and build additional scale beyond the capital resources currently available.

Exhibit 3: Share price (pence), past three years

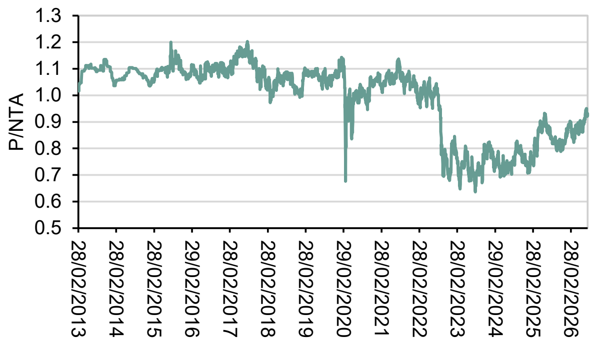
Source: LSEG Data & Analytics

Exhibit 4: Dividend yield history



Source: Target Healthcare DPS data, Edison Investment Research, LSEG Data & Analytics prices

Exhibit 5: P/NAV history



Source: Target Healthcare NAV data, Edison Investment Research, LSEG Data & Analytics prices

In the table below we summarise the performance and valuation of Target and a selected group of other longer lease peers. Sector consolidation has reduced the REIT sector, and the peer group has narrowed over the past three years due to corporate activity. The acquisition by PHP of Assura and the acquisition of Care REIT by US-based healthcare real estate investment trust Caretrust REIT have highlighted the undervaluation of the sector.

Target shares have strongly outperformed the peer group and the broader UK property sector over one and three years. On a trailing basis, the company's P/NAV is broadly in line with the peer group, and its dividend yield is lower.

Exhibit 6: Selected peer group performance and valuation

	WAULT (years)	Price (p)	Market cap (£m)	P/NAV (x)	Yield (%)	Share price performance			
						1 month	3 months	1 year	3 years
LondonMetric	17	195	4,584	0.98	6.4	3%	3%	2%	5%
Primary Health Properties	10	96	2,489	0.97	7.6	3%	2%	2%	-1%
Social Housing REIT	22	76	351	0.81	7.4	1%	6%	11%	18%
Supermarket Income	12	87	1,189	0.99	7.1	-2%	6%	8%	12%
Tritax Big Box	10	166	4,514	0.89	4.9	2%	9%	17%	17%
Average	**16**			**0.92**	**7.1**	**3%**	**4%**	**5%**	**7%**
Target Healthcare	**26**	**113**	**700**	**0.92**	**5.3**	**2%**	**5%**	**12%**	**55%**
UK property sector index		1,354				5%	14%	12%	8%
UK equity market index		5,877				4%	7%	19%	41%

Source: Company data, Edison Investment Research, LSEG Data & Analytics prices as at 7 August 2026. Note: P/NAV is based on last reported NAV/NTA. Yield is based on 12-month trailing DPS declared. Residential Secure Income is in a process of winddown.

Exhibit 7: Financial summary

Year to 30 June (£m)	2024	2025	2026e	2027e	2028e
INCOME STATEMENT					
Rental income excluding guaranteed uplift	58.6	60.4	60.3	63.6	66.1
IFRS adjustment for guaranteed uplifts	10.9	10.8	10.6	10.6	10.6
Other income	0.0	1.7	0.0	0.0	0.0
Total revenue	69.6	72.9	70.9	74.2	76.7
Gains/(losses) on revaluation	24.7	12.2	30.4	21.9	14.7
Realised gains/(losses) on disposal	1.9	0.0	0.0	0.0	0.0
Management fees	(7.5)	(7.8)	(8.2)	(8.7)	(9.3)
Credit loss allowance & bad debts	(1.0)	(1.6)	0.9	(0.6)	(0.7)
Administrative expenses	(3.1)	(3.9)	(3.6)	(3.6)	(3.7)
Operating profit	84.6	71.9	90.5	83.2	77.6
Net finance cost	(11.6)	(11.0)	(9.3)	(9.2)	(10.5)
IFRS net result	73.0	60.8	81.1	73.9	67.1
Adjust for:					
Gains/(losses) on revaluation	(24.7)	(12.2)	(20.9)	(21.9)	(14.7)
Other EPRA adjustments	(1.1)	(0.7)	(9.2)	0.0	0.0
EPRA earnings	47.2	47.9	51.1	52.0	52.5
Adjust for fixed/guaranteed rent reviews	(10.9)	(10.8)	(10.6)	(10.6)	(10.6)
Adjust for development interest under forward fund agreements	1.8	0.7	0.1	0.4	0.8
Group adjusted earnings	38.0	37.7	40.6	41.9	42.7
Average number of shares in issue (m)	620.2	620.2	620.2	620.2	620.2
IFRS EPS (p)	11.8	9.8	13.1	11.9	10.8
EPRA EPS (p)	7.6	7.7	8.2	8.4	8.5
Adjusted EPS (p)	6.1	6.1	6.5	6.8	6.9
Dividend per share (declared) (p)	5.71	5.88	6.03	6.18	6.34
Dividend cover (EPRA earnings) (x)	1.33	1.31	1.36	1.36	1.34
Dividend cover (Adjusted earnings) (x)	1.07	1.03	1.09	1.09	1.09
BALANCE SHEET					
Investment properties	831.6	840.4	834.1	895.0	934.5
Other non-current assets	91.2	101.9	102.7	113.1	123.7
Non-current assets	922.8	942.3	936.8	1,008.1	1,058.1
Cash and equivalents	38.9	39.6	50.8	57.2	46.8
Other current assets	5.7	4.3	2.3	2.3	2.3
Current assets	44.6	43.9	53.1	59.5	49.1
Bank loan	(240.7)	(240.3)	(197.8)	(237.4)	(248.1)
Other non-current liabilities	(9.9)	(12.7)	(13.3)	(13.3)	(13.3)
Non-current liabilities	(250.6)	(253.0)	(211.0)	(250.7)	(261.3)
Trade and other payables	(27.5)	(20.7)	(21.2)	(22.4)	(23.3)
Current Liabilities	(27.5)	(20.7)	(21.2)	(22.4)	(23.3)
Net assets	689.3	712.5	757.6	794.5	822.6
Adjust for derivative financial liability	(2.8)	(0.6)	0.0	0.0	0.0
EPRA net tangible assets (NTA)	686.5	711.9	757.6	794.5	822.6
Period end shares (m)	620.2	620.2	620.2	620.2	620.2
IFRS NAV per share (p)	111.1	114.9	122.1	128.1	132.6
EPRA NTA per share (p)	110.7	114.8	122.1	128.1	132.6
EPRA NTA total return	11.4%	9.0%	11.6%	9.7%	8.5%
CASH FLOW					
Cash flow from operations	52.2	50.8	52.0	51.9	53.3
Premium paid for interest rate cap	0.0	0.0	0.0	0.0	0.0
Net interest paid	(9.9)	(9.7)	(8.4)	(8.6)	(9.8)
Tax paid	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	42.3	41.1	43.6	43.4	43.5
Purchase of investment properties	(40.9)	(13.0)	(48.8)	(32.3)	(24.8)
Disposal of investment properties	44.3	9.8	96.8	0.0	0.0
Net cash flow from investing activities	3.4	(3.2)	48.0	(32.3)	(24.8)
Issue of ordinary share capital (net of expenses)	0.0	0.0	0.0	0.0	0.0
(Repayment)/drawdown of loans	13.0	(1.0)	(42.0)	39.0	10.0
Dividends paid	(35.2)	(36.1)	(37.1)	(38.1)	(39.1)
Other	0.0	0.0	(1.2)	0.0	0.0
Net cash flow from financing activities	(22.2)	(37.1)	(80.4)	0.9	(29.1)
Net change in cash and equivalents	23.5	0.8	11.2	12.0	(10.4)
Opening cash and equivalents	15.4	38.9	39.6	50.8	62.8
Closing cash and equivalents	38.9	39.6	50.8	62.8	52.4
Balance sheet debt	(240.7)	(240.3)	(197.8)	(237.4)	(248.1)
Unamortised loan arrangement costs	(2.3)	(1.7)	(2.2)	(1.6)	(0.9)
Drawn debt	(243.0)	(242.0)	(200.0)	(239.0)	(249.0)
Net cash/(debt)	(204.1)	(202.4)	(149.2)	(181.8)	(202.2)
Gross LTV	26.7%	26.0%	21.6%	24.0%	23.8%
Net LTV	22.5%	21.8%	16.1%	18.3%	19.3%

Source: Target Healthcare REIT historical data, Edison Investment Research forecasts

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