

MedicX Fund

Interim results

Positioning for continuing growth

H118 results from MedicX Fund saw continued portfolio and rental growth, with costs well controlled. The positive results were accompanied by a new dividend policy, which will rebalance total returns partly away from dividends paid and more towards capital growth. From FY19 it targets a lower, fully covered DPS, conserving cash flow and providing greater flexibility to sustainably fund further accretive asset growth. The FY19 prospective dividend yield of c 5% remains attractive and the shares are priced at a c 10% P/NAV discount to peers.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	DPS (p)	EPRA NAV/ share (p)	P/NAV (x)	Yield (%)
09/16	34.3	12.6	3.4	5.95	73.2	1.08	7.6
09/17	35.9	14.7	3.5	6.00	76.5	1.03	7.6
09/18e	40.5	17.8	4.0	6.04	79.5	0.99	7.7
09/19e	47.2	19.3	4.1	3.90	81.8	0.96	4.9

Note: *EPRA earnings and EPS exclude deferred taxation, revaluation gains and exceptional items.

Continued progress

The dividend rebalancing has no impact on NAV total return and is a sensible adjustment reflecting sustained tightening in property yields, better positioning the fund for further accretive asset growth. MedicX has near-term acquisition opportunities of £174m, including a £64m portfolio of income-producing properties on which it hopes to complete by 8 June. It is considering the issue of 42.88m new shares at close to NAV as part consideration, conserving existing debt headroom. Anticipating faster portfolio growth through H218 and FY19, our forecasts for rental income and EPRA earnings are increased, although share issuance slightly reduces FY19 EPS. FY18 EPRA NAV per share benefits from valuation gains in H118, and reduced dividend distribution in FY19. The implied NAV total return lifts to 11.9% in FY18 (from 8.4%) and slightly reduces to 8.5% in FY19 (9.3%).

Strong growth prospects in UK and RoI

In both the UK and RoI, there is broad political will to reform healthcare provision, placing more emphasis on primary care to meet the increasing healthcare needs of growing and ageing populations. The requirement for larger, more flexible, higher-quality premises will provide significant investment opportunities for MedicX and others in coming years. Signs in the UK that NHS new build commissioning is finally beginning to accelerate as new structures and strategies bed down is both positive for investment prospects and market rental growth, which is set to reverse, having lagged land and building cost inflation over a number of years.

Valuation: Rebalancing creates opportunity

We forecast a rebalanced, prospective fully covered dividend of 3.90p for FY19, a c 5% yield on the current share price. Share price uncertainty in reaction to the dividend rebalancing has opened up a c 10% P/NAV discount to peers and an underlying yield premium, which may represent an attractive entry point for investors.

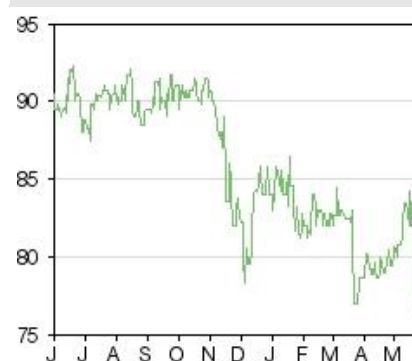
Real estate

30 May 2018

Price 78.8p
Market cap £338m

Net debt (£m) at 31 March 2018	361.0
Net LTV as at 31 March 2018	49.5%
Shares in issue	429.0m
Free float	100%
Code	MXF
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.5	(3.6)	(11.3)
Rel (local)	(5.3)	(8.7)	(14.6)
52-week high/low	92.2p	76.4p	

Business description

MedicX Fund is a specialist REIT, listed on the premium segment of the London Stock Exchange, investing in primary care infrastructure in the UK and Republic of Ireland. The investment objective is to achieve rising rental income and capital growth from the ownership of high-quality, modern, purpose-built primary healthcare properties.

Next events

Q3 ex-dividend	16 August 2018
FY18 results	11 December 2018

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MedicX Fund is a research client of Edison Investment Research Limited

Continued growth in H118

H118 saw continued growth, with rental income benefiting from portfolio acquisitions, completions of properties under development and rent increases. Costs were well controlled, substantially reflecting the freeze on management fees until the property portfolio reaches £782m (end-H118: £719.7m). The positive developments in the results, briefly reviewed below, are somewhat overshadowed by news of the new dividend policy, under which MedicX will transition to a lower, fully covered dividend from FY19 (FY18 dividend per share target of 6.04p unchanged). NAV total return is unaffected by the move, which rebalances prospective shareholder returns more towards NAV growth and enhancing internal resources to fund further accretive asset growth. MedicX has a near-term acquisition pipeline of c £174m.

Exhibit 1: Results summary				
£000s	H118	H117	H118/H117	2017
Net rental income	18,988	17,851	6.4%	35,947
Expenses	(2,967)	(2,955)	0.4%	(6,085)
Operating profit	16,021	14,896	7.6%	29,862
Share of profit of JV	30	0		10
Net finance expense	(8,128)	(7,859)		(15,149)
Loss on disposal of investment property	0	(25)		(65)
EPRA earnings	7,923	7,012	13.0%	14,658
Net revaluation gain/(loss) on investment property	18,290	6,583		18,654
Profit on disposal of investment property	143			
Profit before tax	26,356	13,595	93.9%	33,312
Deferred tax	(712)	(1,072)		5,312
IFRS net profit	25,644	12,523	104.8%	38,624
EPRA EPS (p)	1.85	1.75	5.5%	3.55
DPS declared - (p)	3.02	3.00		6.00
Dividend cover (declared basis)	61%	58%		59%
EPRA NAV per share (p)	79.6	74.4	7.0%	76.5
Net LTV	49.5%	50.8%		49.5%
Source: MedicX Fund				

The highlights of the H118 results were:

- Net rental income grew 6.4% compared with H117 and 4.9% compared with H217. The rent roll reached £40.7m compared with £40.0m at end-FY17.
- Costs were well controlled, up 0.4% compared with H117 and c 5% lower than in H217 as a result of lower professional fees in the period.
- Finance expenses grew with higher debt (used to fund portfolio growth), but the average cost continued to decline (4.27% at end-H118 compared with 4.29% at end-FY17) as a result of lower rates agreed on the marginal debt drawn. Net loan to value (LTV) was unchanged on end-FY17, slightly lower y-o-y.
- EPRA earnings grew 13.0% compared with H117 and 3.6% compared with H217. Taking into account share issuance, EPRA EPS increased 5.5% to 1.85p (H117: 1.75p).
- MedicX declared 3.02p of dividends per share in H118 and continues to target a 6.04p distribution for the year, before the new dividend policy is applied in respect of the FY19 year. EPRA EPS covered dividends declared by c 61% in H118, a small increase in cover on both H117 and H217.
- The secure long-term yields that primary healthcare properties can provide, and the improving prospects for rental growth, continue to attract a wide range of investors to the asset class, pushing up valuations and causing yields to tighten further. Net revaluation gains added £18.3m in H118, with the external portfolio valuation reflecting a net initial yield of 4.99% for UK assets (end-FY17: 5.08%). Yields in the Republic of Ireland remain higher than in the UK but

have also tightened, with the valuation reflecting a true equivalent yield of just over 6.6% (end-FY17: 6.8%).

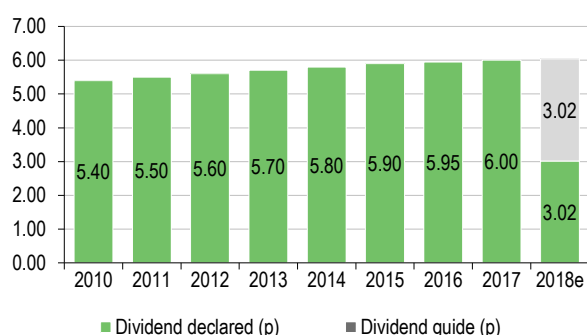
Good-quality portfolio, developing well

The value of the investment portfolio increased by 5.8% to £719.7m as at 31 March 2018, with net capital investment of £21.2m in addition to the £18.3m revaluation gain. The lot size profile of the portfolio (57% of properties valued at £5m or more) and the age profile (26% of properties less than five years and 59% less than 10 years) are positive indicators for the quality of the assets, dominated by modern purpose-built facilities with the potential to adapt to changing healthcare needs over many years. The weighted average lease term of 14.0 years provides strong visibility of income, and in the UK leases are effectively subject to upwards-only rent reviews at the option of the landlord. Income security is also high, with minimal vacancy, and c 90% of rents effectively government backed, while most of the rest (c 9%) is attributable to co-located secure pharmacy operations. Settled rent reviews generated an average uplift of 1.5% in H118, an acceleration from c 1.0% in FY17. RPI-linked/fixed rental uplifts (32% of rents) are still the driving force, while open-market rent reviews continue to lag the rise in land and building cost inflation but, positively, there is a general expectation across the industry that this will soon change. For the new buildings needed by health authorities to attract the required investment, rental levels will need to increase, providing evidence for a knock-on impact for existing assets.

Rebalancing the dividend

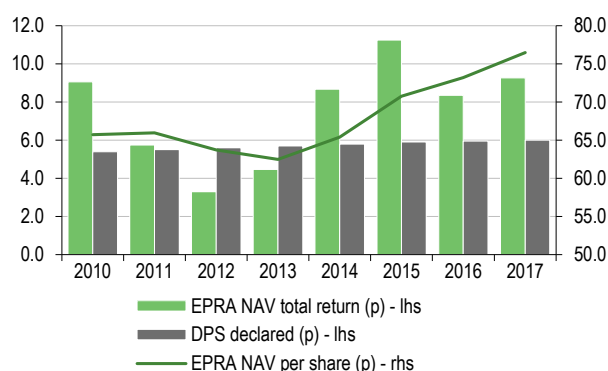
Since MedicX Fund was launched in August 2006 it has progressively grown dividends (Exhibit 2), distributing c £156m over the period. Dividend payments have regularly exceeded recurring income earnings per share, but have broadly tracked NAV total returns in recent years, with steadily increasing property valuations supporting NAV per share growth. In the nine years since the financial crisis, from end-FY08 to end-FY17, the cumulative annual total return (change in EPRA NAV per share plus dividends paid, not adjusted for scrip) was 83.1% or a compound 7.0% pa. 90% of this total return represented dividends paid, with NAV per share growth (after dividends paid) making up the balance.

Exhibit 2: Dividend per share history



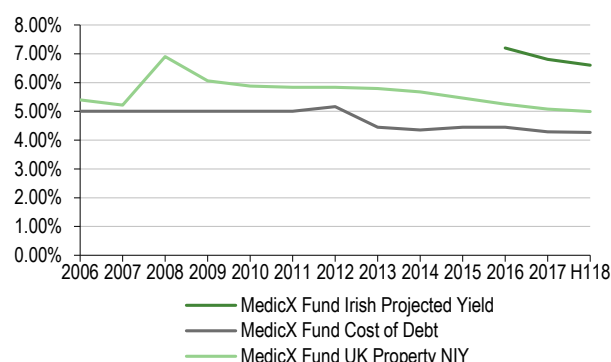
Source: MedicX Fund data

Exhibit 3: Dividends have tracked NAV total return

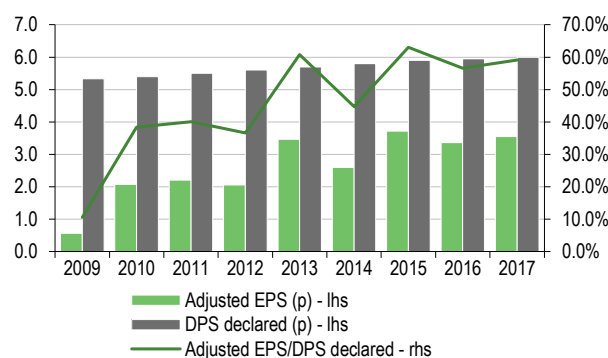


Source: MedicX Fund data. Edison Investment Research

The rise in property valuations has outstripped rental growth in recent years such that yields have tightened significantly, particularly since 2014 (Exhibit 4). The flip side of improving valuations is that the cash returns to be earned on new investments (existing investments are unaffected) has fallen. Helpfully, the average cost of debt funding has also reduced, maintaining a positive spread on new investment, such that portfolio growth remains attractive, especially with management fees frozen until the portfolio reaches £782m and rental growth showing signs of acceleration.

Exhibit 4: Property yields versus borrowing costs


Source: MedicX Fund data as at 31 March 2018

Exhibit 5: DPS cover has steadily grown


Source: MedicX Fund data, Edison Investment Research

However, although dividend cover has been on an increasing trend (Exhibit 5), the step change in property yields means that closing the gap has become increasingly difficult, despite dividend growth having been moderated. Additionally, the share price de-rating relative to NAV increases the number of shares that need to be issued to maintain a prudent level of gearing while growing the portfolio, which unchanged would put further pressure on dividend distributions relative to EPS and cash flow.

Targeting a fully covered dividend, not lower returns

MedicX has maintained its DPS guidance for the current (FY18) financial year at 6.04p per share, but intends to pay a fully covered DPS from FY19, targeting a payout ratio of c 95% of EPRA earnings.

Exhibit 6: Illustration of future potential dividends

Period	Status	Payment	Amount
Q218 (Mar 18)	Declared	29-Jun-18	1.51p
Q318 (Jun 18)	Intended	28-Sep-18	1.51p*
Q418 (Sep 18)	Intended	31-Dec-18	1.51p*
Q119 (Dec 19)	Illustrative	29-Mar-19	0.875p**
Q219 (Mar 19)	Illustrative	28-Jun-19	0.875p**
Q319 (Jun 19)	Illustrative	30-Sep-19	0.875p**
Q419 (Sep 19)	Illustrative	31-Dec-19	0.875p**

Source: MedicX Fund. Note: *Estimated dividend. **Illustration provided by MedicX Fund (not a forecast), shown on the basis described below.

The illustrated potential quarterly dividend per share payments for FY19, shown in Exhibit 6, represent the distributions that would be supported by the results for the six months to 31 March 2018, allowing for a 95% payout ratio (105% dividend cover). It is important to note:

- Edison earnings estimates for the year to 30 September 2019 are higher than the annualised run rate reported in H118, and as a result we are forecasting higher quarterly dividends than shown in Exhibit 6. We estimate FY19 EPRA EPS of 4.1p and total DPS (declared) for the year of 3.9p, representing dividend cover of 105%.
- The lower distribution policy does not reduce the NAV total return and should enhance it. Lower dividend payments mean faster than otherwise NAV growth as more earnings are retained for accretive reinvestment.
- While some existing investors will be understandably disappointed at the dividend rebalancing and reduction in immediate income, the MedicX board believes that moving towards a fully covered dividend will attract a wider range of investors over time. To the extent that this is then reflected in an improved rating of the shares, it will provide support to portfolio growth and further scale economies.

Significant portfolio growth opportunities

The investment manager has identified short-term investment opportunities of more than £174m in the UK and Republic of Ireland, including a £64m off-market corporate acquisition opportunity, One Medical, which MedicX hopes to complete by 8 June, and a further £60m in solicitors' hands. The latter comprises £41m in the UK and £19m in the Republic of Ireland, a mixture of standing and forward funding opportunities (mainly with the eight "framework" developers with which MedicX works). A further £50m of the short-term pipeline represents active opportunities, across the UK and Republic of Ireland, at the stage of legal due diligence.

The One Medical portfolio of 12 operational and fully let primary care centres is significant in size, representing c 9% of the existing portfolio value. MedicX believes it to be a good strategic fit, comprising larger and locally important premises, four of which are less than four years old, with a portfolio weighted average unexpired lease term (WAULT) of 14.3 years. The portfolio rent roll is c £3.0m pa, which represents 7.4% of the existing total.

Including costs of £1.6m, the planned acquisition includes a cash consideration of c £29m and the assumption of existing debt with a fair value of c £37m, plus a small amount of working capital. To part-fund the acquisition, and subject to market conditions, MedicX intends to issue 42.88m shares at close to EPRA NAV, and it is possible that the vendor of One Medical may participate, becoming a MedicX shareholder. Our forecasts now assume completion of this acquisition, and the intended share issue at 80p (around H118 EPRA NAV). Should it not be possible to issue shares within the targeted price range, we would expect MedicX to proceed with the acquisition, funding the cash consideration from debt.

Modest changes to earnings estimates

We have adjusted our financial forecasts to take account of the updated acquisition pipeline, equity funding guidance and revised dividend policy. We continue to look for continued accretive asset growth and scale economies, while the equity funding reduces our forecast LTV but slightly dilutes EPRA EPS. Our forecast total returns are rebalanced between dividend distributions and NAV growth.

The main drivers of our revised estimates are:

- **Property acquisitions.** H118 portfolio commitments of £11.6m were modest compared with our previous full-year expectation and the acquisition pipeline in place at the start of the year, and were, in our estimate, held back both by acquisition discipline and a focus on the plans for future funding and distribution policy. Our revised estimates for FY18 include the £64m corporate portfolio, One Medical, acquisition opportunity and completion of an additional £50m of commitments, a mix of standing assets and forward funding assets in the UK and Republic of Ireland, from the remaining near-term pipeline. The FY18 total commitment of £114m compares with a previous estimate of £100m, bringing forward some of the commitment previously assumed for FY19 (reduced from £114m to £100m).
- **Rent roll.** Assuming completion of forward funding assets, our forecast for annualised rent roll is £46.6m by end FY18, including the £3m guided for One Medical, and £52.6m by end FY19 (a blended 5.25% blended yield on commitments). Assumed cash yields on acquisition are slightly lower than previously forecast, in line with market conditions, but the One Medical acquisition increases the share of near-term standing assets within the committed investment, with an immediate impact on rent income. Rent growth of 2% pa on existing assets is also assumed, as previously.

- **Portfolio growth and management fees.** Allowing for the gradual drawdown of development funding commitments and including revaluation movements that broadly track rent growth (no yield changes assumed), the forecast portfolio value is £812.4m at end FY18 (H118: £719.7m) and £932.6m at end FY19. Much of the H218 growth will generate zero marginal management fees as these are fixed until the portfolio reaches £782m. Thereafter, portfolio growth up to £1bn attracts marginal fees at the rate of 0.4%.
- **Funding.** We have assumed the issue of 42.88m new shares at 80p (just above the H118 EPRA NAV per share) as part funding for One Medical. For modelling purposes we had previously made the working assumption that asset growth would be debt funded. The increased share count assumption generates a lower EPRA EPS than we had previously estimated, although forecast LTV is lower. The lower forecast LTV may provide room for earnings upside from faster asset growth than we have assumed or provide flexibility for a debt refinancing, lowering average debt cost but crystallising mark to market liabilities on long-term, fixed-rate debt (see below).
- **Dividends/NAV.** In line with guidance, our FY19 DPS assumption falls. We assume a 95% payout of our forecast EPRA earnings, or 3.9p per share. Our EPRA NAV forecast increases in FY18 as a result of the H118 revaluation gains, and increases further in FY19 as a result of the lower dividend distribution. The FY18 EPRA NAV total return (change in NAV plus dividends paid) implied by our forecasts increases from 8.4% to 11.9% and for FY19 there is a slight reduction from 9.3% to 8.5%.

Exhibit 7: Estimate revisions

	Net rental income (£m)			EPRA net earnings (£m)			EPRA EPS (p)			DPS (p)			EPRA NAV/share (p)		
	Old	New	% change	Old	New	% change	Old	New	% change	Old	New	% change	Old	New	% change
09/18e	40.4	40.5	0.3	17.2	17.8	3.6	4.0	4.0	(0.9)	6.04	6.04	0.0	76.9	79.5	3.4
09/19e	45.9	47.2	2.9	18.8	19.3	2.5	4.4	4.1	(6.8)	6.08	3.90	(35.9)	77.9	81.8	5.0

Source: Edison Investment Research

Potential for debt refinancing

Drawn debt amounted to c £380m at 31 March 2018, almost all long term and fixed rate, and diversified across a range of lenders. The weighted average unexpired term was 12.1 years at the same date, closely matching the 14.0 years remaining unexpired lease term of the portfolio, with an average cost of 4.27%. Adjusting for cash, net debt was £361m with a loan to value ratio (LTV) of 49.5%, unchanged from end-FY17.

A number of UK REITs have taken the opportunity provided by favourable funding conditions to refinance relatively high-cost, long-term debt and MedicX is similarly in discussions with its lenders. The main opportunity relates to the four debt facilities with Aviva, as highlighted in Exhibit 8 below, and discussions are underway about a restructuring.

Exhibit 8: Debt portfolio as at 31 March 2018

	Aviva £100m facility	Aviva £50m facility	Acquired Aviva PMPI	Acquired Aviva GPG	Private placement	Private placement	Bank of Ireland	Private placement
Facility size	£100.0m	£50.0m	£62.5m	£34.6m	£50.0m	£50.0m	€34.0m	£27.5m
Committed	Dec 2006	Feb 2012	July 2012	May 2013	Aug 2014	Apr 2015	Mar 2017	July 2017
Drawn	£100.0m	£50.0m	£57.8m	£27.1m	£50.0m	£50.0m	€23.4m	£27.5m
Expiry	Dec 2016	Feb 2032	Feb 2027*	Nov 2032*	Dec 2028	Sep 2028	Sep 2024	Sep 2028
Interest rate (inc margin)	5.01%	4.37%	4.45%	4.47%	3.99%	3.84%	3%**	3.00%
LTV draw-down	55.4%	50.4%	58.0%	61.3%	59.2%	65.2%	49.4%	65.2%
Repayment terms	Interest only	Amortising***	Amortising	Amortising	Interest only	Interest only	Amortising****	Interest only
Interest cover covenant	140%	110%	104%*	103%	115%	115%	165%	115%
LTV covenant	75%	75%	N/A	N/A	74%	74%	65%	74%
Opportunity to release surplus charged property				£70.1m				

Source: MedicX Fund. Note: *Based on the major facility acquired. **4% over Euribor until secured property achieves practical completion, when margin steps down to 3% for remaining term. ***Amortises from year 11 to £30m. ****Amortises €1m pa for final five years.

The main objective for MedicX from refinancing the Aviva facility would be to release from charge properties that are surplus to the LTV covenant and enhance cash flow by reducing debt amortisation. MedicX estimates that it may be possible to release £70.1m, providing it with greater flexibility in its overall debt portfolio. In current market conditions, additional borrowing to support portfolio growth would likely attract interest at closer to 3%, reducing the blended cost of borrowing.

As some other companies have done, MedicX could decide to further reduce the average cost of borrowing by repaying relatively expensive long-term debt, triggering a break cost. The interest saving would lift recurring earnings and dividend-paying capacity, but EPRA NAV would reduce as a result of the break payment. We would consider any restructuring as broadly neutral to valuation, with the positive impact on recurring earnings offsetting the impact on EPRA NAV per share.

The impact of marking to market the long-term, fixed-rate debt was £42.4m at 31 March 2018 (a similar figure to end-FY17), and is reflected in the alternative published NAV format, EPRA NNNAV, which includes debt at its fair value rather than its nominal value. EPRA NNNAV per share was 69.4p at end-H118 compared with EPRA NAV of 79.6p, and EPRA NNNAV would be unaffected by triggering break payments as it already reflects the likely cost of these. We focus on EPRA NAV as debt will either be held to maturity and repaid at nominal value, or refinanced at advantageous terms. A substantial part of the total debt mark-to-market adjustment will relate to the Aviva debt, which accounts for c 60% of drawn debt, with a longer than average blended duration (c 15 years) and at an above average blended cost (c 4.7%). On this basis, the Aviva debt may account for some 75% of the total mark to market adjustment.

In addition to the Aviva discussions, MedicX is also negotiating with Bank of Ireland to amend the euro-denominated facility that funds and hedges its assets in the Republic of Ireland, putting in place a development facility while seeking to lower the overall cost. An extension of the £20m revolving credit facility with RBS, not currently drawn, is also being documented, doubling the commitment by bringing in a club lender to provide a flexible source of attractively priced tactical funding to facilitate the timely closure of acquisitions.

Dividend rebalancing creates valuation potential

High dividend distributions and a progressive dividend policy has been a key attraction of MedicX shares in recent years, with cash flow supported by a secure, long-term income and a growing asset base. Although dividend distributions have regularly exceeded income earnings (ie earnings adjusted primarily for property valuation movements) over the period, this has been more than made up for by capital earnings. As noted above, in the nine years since the financial crisis, from

end-FY08 to end-FY17, the cumulative annual total return (change in EPRA NAV per share plus dividends paid, not adjusted for scrip) was 83.1% or a compound 7.0% pa. 90% of this total return represented dividends paid, with NAV per share growth (after dividends paid) making up the balance.

Exhibit 9: NAV total return since end FY18

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY08-17 cumulative
Opening EPRA NAV per share (p)	70.3	62.0	65.7	66.0	63.7	62.5	65.4	70.8	73.2	70.3
Closing EPRA NAV per share (p)	62.0	65.7	66.0	63.7	62.5	65.4	70.8	73.2	76.5	76.5
DPS paid (p)	6.60	5.38	5.48	5.58	5.68	5.78	5.88	5.94	5.99	52
EPRA NAV total return	(2.4%)	14.6%	8.7%	5.0%	7.0%	13.9%	17.2%	11.8%	12.7%	83.1%
Cumulative annual NAV TR										7.0%

Source: MedicX Fund data, Edison Investment Research

As discussed above, the decision to rebalance the dividend policy does not negatively affect NAV total return (and should even enhance it), but will reduce the returns earned through dividend distributions while enhancing NAV growth. Our forecasts imply a total return on EPRA NAV of 11.9% in FY18 and 8.5% in FY19. Within this, we assume some continuing revaluation gains in H218 and FY19, driven by our estimate of the impact of rent growth, but we do not seek to anticipate valuation changes resulting from further movements (up or down) in market yields. As noted above, the external valuation of the UK assets in the MedicX portfolio reflects a net initial yield (NIY) of 4.99%. This compares with a 4.91% NIY reflected in the Primary Health Properties (PHP) valuation at 31 December 2017, and 4.80% reflected in the Assura valuation as at 31 March 2018. We estimate that a 0.25% reduction in NIY, from 4.99% to 4.74%, reflected in the MedicX portfolio, would add c 8.9p per share to EPRA NAV (79.6p at end-H118). Although it seems unlikely in current market conditions, a 0.25% increase in NIY would reduce EPRA NAV per share by c 8.0p.

The listed investors in primary care properties have experienced a de-rating relative to EPRA NAV in recent months (Exhibit 10), at least in part reflecting a shift in broader property sector valuations in response to rising longer-term interest rates. Unlike the broader property sector, they are not exposed (certainly not directly) to uncertainties about economic cyclicality, while the prospects for further growth through investment and an acceleration in rent growth are positive.

The reaction to its decision to rebase the dividend has taken MedicX to a slight discount to EPRA NAV, some 10 percentage points or so below its close peers. This puts it on a current year dividend yield of 7.7%. Looking through to the revised dividend policy, the prospective FY18 DPS of 6.04p would be 3.81p at a 95% payout ratio, a level that would give a dividend yield of 4.9%, slightly ahead of peers.

For the primary healthcare subsector as a whole, the strength of tenant covenants (mainly growing, government-funded rent income, from long-term leases) invites a comparison of recurring income yields of 4.5-5.0% with 10-year UK government gilt yields at c 1.4%.

Exhibit 10: Peer comparison

	Share price (p)	Market cap (£m)	Current year DPS (p)	Prospective yield (x)	P/EPRA NAV, last published (x)	Share price performance			
						One month	Three months	12 months	From 12-month high
Assura	57	1,348	2.62	4.6%	1.08	-6%	-3%	-6%	-16%
PHP	113	825	5.40	4.8%	1.12	1%	-3%	1%	-9%
MedicX	78	334	6.04	7.7%	0.98	-3%	-5%	-14%	-16%
MedicX (105% cover)	78	334	3.81	4.9%	0.98				

Source: Company data, Edison Investment Research, Bloomberg data as at 25 May 2018

Exhibit 11: Financial summary

Year ending 30 September	2015	2016	2017	2018e	2019e
£000s					
Net rental income	32,767	34,322	35,947	40,535	47,227
Investment advisory fee	(3,725)	(3,852)	(3,867)	(3,877)	(4,744)
Investment advisory performance fee	0	(1,553)	0	0	0
Property management fee	(849)	(889)	(925)	(970)	(1,077)
Other administrative expenses	(938)	(1,015)	(1,293)	(1,164)	(1,210)
Total recurring administrative expenses	(5,512)	(7,309)	(6,085)	(6,011)	(7,031)
Operating profit before valuation movements	27,255	27,013	29,862	34,524	40,197
Net revaluation gain/(loss) on investment property	25,603	15,523	18,654	22,088	12,663
Profit/(loss) on disposal of investment property	0	31	(65)	143	0
Operating profit	52,858	42,567	48,451	56,755	52,860
Share of profit of JV	0	0	10	60	60
Net finance expense	(13,736)	(14,380)	(15,149)	(16,951)	(20,984)
Profit before tax	39,122	28,187	33,312	39,863	31,935
Tax	(3,293)	(1,556)	5,312	(712)	0
Net profit	35,829	26,631	38,624	39,151	31,935
Adjust for:					
Net revaluation gain/(loss) on investment property	(25,603)	(15,523)	(18,654)	(22,088)	(12,663)
Deferred tax	3,293	1,556	(5,312)	712	0
Other	(88)	(56)	0	0	0
EPRA earnings	13,431	12,608	14,658	17,775	19,272
Average fully diluted number of shares outstanding (m)	361.3	374.5	413.1	448.6	472.8
Basic IFRS EPS (p)	9.9	7.1	9.4	8.7	6.8
Fully diluted EPRA EPS (p)	3.7	3.4	3.5	4.0	4.1
DPS declared (p)	5.90	5.95	6.00	6.04	3.90
Dividend cover (EPRA EPS/DPS)	0.63	0.57	0.59	0.66	1.05
Expense ratio*	2.23%	2.11%	1.94%	1.73%	1.85%
BALANCE SHEET					
Investment properties	553,479	612,264	680,355	812,404	932,567
Investment in equity accounted JV	0	0	1,035	1,053	1,053
Total non-current assets	553,479	612,264	681,390	813,457	933,620
Cash & equivalents	56,910	20,968	32,145	13,551	6,729
Trade & other receivables	6,778	8,519	7,176	8,619	9,778
Total current assets	63,688	29,487	39,321	22,170	16,507
Loans due after one year	(336,412)	(334,307)	(370,583)	(434,602)	(534,602)
Deferred tax liability	(4,331)	(5,887)	(575)	(1,287)	(1,287)
Other non-current liabilities	(1,465)	(1,490)	(1,456)	(1,428)	(1,428)
Total non-current liabilities	(342,208)	(341,684)	(372,614)	(437,317)	(537,317)
Loans due within one year	(1,896)	(1,983)	(2,213)	(2,462)	(2,462)
Trade & other payables	(18,966)	(19,923)	(18,682)	(21,547)	(24,446)
Total current liabilities	(20,862)	(21,906)	(20,895)	(24,009)	(26,908)
Net assets	254,097	278,161	327,202	374,301	385,902
Adjust for:					
Deferred tax	4,331	5,887	575	1,287	1,287
EPRA net assets	258,428	284,048	327,777	375,588	387,189
Adjustment to debt at fair value	(25,212)	(59,134)	(42,574)	(42,416)	(42,416)
EPRA NNAV	233,216	224,914	285,203	333,172	344,773
Period end fully diluted number of shares outstanding (m)	365.1	388.1	428.6	472.3	473.2
Basic IFRS NAV per share (p)	69.6	71.7	76.3	79.2	81.5
Fully diluted EPRA NAV per share (p)	70.8	73.2	76.5	79.5	81.8
Fully diluted EPRA NNAV per share (p)	62.7	56.4	66.4	70.3	72.6
CASH FLOW					
Cash flow from operating activity	10,152	11,408	15,104	19,188	21,012
Cash flow from investing activity	(23,316)	(36,281)	(50,668)	(73,296)	(107,500)
Issue of equity (net of costs)	6,816	18,962	34,526	33,775	0
New loan facilities drawn/debt repaid	52,077	(1,895)	37,070	27,198	100,000
Dividends paid (net of scrip)	(19,247)	(21,582)	(24,013)	(25,343)	(20,334)
Other financing activity	(697)	(6,554)	(859)	(92)	0
Net cash flow from financing activity	38,949	(11,069)	46,724	35,538	79,666
Change in cash	25,785	(35,942)	11,160	(18,570)	(6,822)
FX	0	0	17	(24)	0
Opening cash	31,125	56,910	20,968	32,145	13,551
Closing cash	56,910	20,968	32,145	13,551	6,729
Debt	(338,308)	(336,290)	(372,796)	(437,064)	(537,064)
Net debt	(281,398)	(315,322)	(340,651)	(423,513)	(530,335)
Net LTV	50.2%	50.8%	49.5%	51.5%	54.1%

Source: Company accounts, Edison Investment Research

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