

# Impact Healthcare REIT

## Q220 DPS reaffirmed

Business update

With care home COVID-19 infection rates continuing to decline, and continuing full rent collection, Impact has reaffirmed its intention to pay its Q220 DPS in line with expectations. Across the sector, the pandemic has created operational challenges for care home operators, including Impact's tenants, but it has also highlighted the essential service that the sector provides. This may have the positive effect of permanently improving resident funding and support investment to meet the increasing care needs of a growing elderly population.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS*(p)	EPRA NAV/share (p)	DPS (p)	P/NAV/share (x)**	Yield (%)**
12/18	17.3	12.4	6.47	102.9	6.00	0.93	6.2
12/19	24.0	17.6	6.95	106.8	6.17	0.90	6.4
12/20e	30.4	22.6	7.08	108.7	6.29	0.88	6.5
12/21e	35.3	26.5	8.30	112.2	6.40	0.86	6.7

Note: \*EPRA earnings exclude fair value movements on properties and interest rate derivatives. \*\*P/NAV and yield are based on the current share price.

## Business model continues to be resilient

Impact collected all rents due to the end of June and as of 6 July had received 100% of the rent payable in advance in respect of the forthcoming period. Of the total rent due this month 76% is rent payable quarterly in advance and 24% is rent payable monthly in advance. We expect a Q220 DPS of 1.5725p to be declared, in line with Q120 and the full year target of 6.29p (+1.9%), fully covered by EPRA earnings.

Impact continues to work closely with tenants and with more widespread testing now available it has a clearer picture of the spread of the pandemic through the homes in its portfolio. At 6 July, six of the group's 96 homes had a small number of isolated confirmed cases of COVID-19 and the number of related deaths peaked in late April in line with the wider sector. With homes closed to new admissions in many cases, the number of occupied beds across the portfolio reduced by c 8% during the 17-week period from early March, when the first UK COVID-19 death was registered. The additional costs incurred by tenants in managing the pandemic have been mitigated by government support and increased fees, and tenants are again focusing on reopening homes to new admissions. Impact has agreed to support this careful reopening process in a number of ways, including the purchase and installation of thermal scanners at all its homes.

The continuing robust performance of tenants is encouraging. Entering the pandemic, the average financial performance of Impact's tenants was strong (2019 rent cover of 1.8x with little or no external debt), while the company itself has low gearing, good liquidity and significant access to undrawn debt, suggesting a resumption of acquisition-led portfolio growth in due course.

## Valuation: DPS growth linked to rental uplifts

Impact targets aggregate DPS of 6.29p in FY20 (+1.9%), barring a material COVID-19 impact on rent collection, representing an attractive yield of 6.5% while the c 6% discount to NAV compares with an average 3% premium since IPO (peak of 11%).

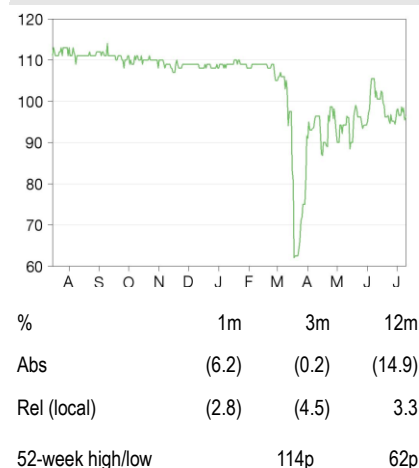
Real estate

14 July 2020

**Price** 96p  
**Market cap** £307m

Net cash (£m) at 31 December 2019	22.7
Gross LTV at 31 March 2020 (maximum c 18% if all committed transactions completed)	6.8%
Shares in issue	319.0m
Free float	94%
Code	IHR
Primary exchange	LSE
Secondary exchange	N/A

## Share price performance



## Business description

Impact Healthcare REIT, traded on the Main Market of the London Stock Exchange, invests in a diversified portfolio of UK healthcare assets, particularly residential and nursing care homes, let on long leases to high-quality operators. It aims to provide shareholders with attractive and sustainable returns, primarily in the form of dividends, underpinned by structural growth in demand for care.

## Next event

Half-year results August 2020

## Analyst

Martyn King +44 (0)20 3077 5745

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

[Edison profile page](#)

**Impact Healthcare REIT is a research client of Edison Investment Research Limited**

**Exhibit 1: Financial summary**

Year to 31 December (£000s)	2017	2018	2019	2020e	2021e	2022e
<b>INCOME STATEMENT</b>						
Cash rental income	9,453	13,866	19,113	25,312	30,490	32,107
Rental income arising from recognising rental premiums & fixed rent uplifts	(61)	3,443	4,867	5,059	4,858	4,666
Gross rental income	9,392	17,309	23,980	30,371	35,349	36,773
Net other income/(expense)	0	(3)	(2)	0	0	0
Net rental income	9,392	17,306	23,978	30,371	35,349	36,773
Administrative & other expenses	(2,318)	(4,270)	(4,589)	(5,266)	(5,429)	(5,668)
Operating profit before change in fair value of investment properties	7,074	13,036	19,389	25,104	29,920	31,105
Change in fair value of investment properties	2,378	4,134	9,070	3,602	4,817	5,247
Operating profit	9,452	17,170	28,459	28,706	34,737	36,351
Net finance cost	6	(698)	(2,127)	(2,507)	(3,435)	(3,611)
Profit before taxation	9,458	16,472	26,332	26,199	31,302	32,741
Tax	(1)	0	0	0	0	0
Profit for the year (IFRS)	9,457	16,472	26,332	26,199	31,302	32,741
Adjust for:						
Change in fair value of investment properties	(2,378)	(4,134)	(9,070)	(3,602)	(4,817)	(5,247)
Change in fair value of interest rate derivatives	0	105	383	0	0	0
EPRA earnings	7,079	12,443	17,645	22,597	26,485	27,494
Rental income arising from recognising rental premiums & fixed rent uplifts	61	(3,443)	(4,867)	(5,059)	(4,858)	(4,666)
Non-recurring costs	0	742	171	0	0	0
Adjusted earnings	7,140	9,742	12,949	17,538	21,627	22,828
Average number of shares in issue (m)	162.6	192.2	254.0	319.0	319.0	319.0
Basic & diluted IFRS EPS (p)	5.82	8.57	10.37	8.21	9.81	10.27
Basic & diluted EPRA EPS (p)	4.35	6.47	6.95	7.08	8.30	8.62
Basic & diluted adjusted EPS (p)	4.39	5.07	5.10	5.50	6.78	7.16
Dividend per share (declared) (p)	4.50	6.00	6.17	6.29	6.40	6.53
EPRA earnings dividend cover	97%	108%	113%	113%	130%	132%
Adjusted earnings dividend cover	98%	84%	83%	87%	106%	110%
<b>BALANCE SHEET</b>						
Investment properties	156,226	220,463	310,542	401,799	449,616	457,863
Other non-current assets	1,651	5,725	10,111	15,170	20,028	24,694
Non-current assets	157,877	226,188	320,653	416,969	469,644	482,557
Cash and equivalents	38,387	1,470	47,790	17,161	15,916	15,479
Other current assets	119	587	554	554	554	554
Current assets	38,506	2,057	48,344	17,715	16,470	16,033
Borrowings	0	(24,709)	(23,461)	(82,915)	(123,369)	(123,823)
Other non-current liabilities	(1,712)	(1,866)	(1,768)	(1,768)	(1,768)	(1,768)
Non-current liabilities	(1,712)	(26,575)	(25,229)	(84,683)	(125,137)	(125,591)
Borrowings	0	0	0	0	0	0
Other current liabilities	(1,221)	(3,333)	(3,086)	(3,086)	(3,086)	(3,086)
Current Liabilities	(1,221)	(3,333)	(3,086)	(3,086)	(3,086)	(3,086)
Net assets	193,450	198,337	340,682	346,914	357,891	369,913
Adjust for derivative financial liability/(asset)	0	(477)	(94)	(94)	(94)	(94)
EPRA net assets	193,450	197,860	340,588	346,820	357,797	369,819
Period end shares (m)	192.2	192.2	319.0	319.0	319.0	319.0
IFRS NAV per ordinary share	100.6	103.2	106.8	108.8	112.2	116.0
EPRA NAV per share	100.6	102.9	106.8	108.7	112.2	115.9
<b>CASH FLOW</b>						
Net cash flow from operating activities	8,236	9,991	14,941	20,046	25,062	26,439
Purchase of investment properties (including acquisition costs)	(153,338)	(55,076)	(73,416)	(84,655)	(40,000)	0
Capital improvements	(510)	(3,886)	(8,226)	(3,000)	(3,000)	(3,000)
Other cash flow from investing activities	6	39	110	26	16	16
Net cash flow from investing activities	(153,842)	(58,923)	(81,532)	(87,629)	(42,984)	(2,984)
Issue of ordinary share capital (net of expenses)	189,279	(53)	132,156	0	0	0
(Repayment)/drawdown of loans	0	26,000	(873)	59,000	40,000	0
Dividends paid	(5,286)	(11,611)	(16,143)	(19,967)	(20,325)	(20,719)
Other cash flow from financing activities	0	(2,321)	(2,229)	(2,079)	(2,997)	(3,172)
Net cash flow from financing activities	183,993	12,015	112,911	36,955	16,677	(23,891)
Net change in cash and equivalents	38,387	(36,917)	46,320	(30,629)	(1,245)	(437)
Opening cash and equivalents	0	38,387	1,470	47,790	17,161	15,916
Closing cash and equivalents	38,387	1,470	47,790	17,161	15,916	15,479
Balance sheet debt	0	(24,709)	(23,461)	(82,915)	(123,369)	(123,823)
Unamortised loan arrangement costs	0	(1,291)	(1,666)	(1,212)	(758)	(304)
Net cash/(debt)	38,387	(24,530)	22,663	(66,966)	(108,211)	(108,648)
Gross LTV (net debt as % gross assets)	0.0%	11.4%	6.8%	19.4%	25.5%	24.9%

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

---

## General disclaimer and copyright

This report has been commissioned by Impact Healthcare REIT and prepared and issued by Edison, in consideration of a fee payable by Impact Healthcare REIT. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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  
1,185 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