

# Primary Health Properties

## Management internalisation

Company update

Real estate

11 December 2020

**Price** 142p  
**Market cap** £1,868m

Net debt at 30 June 2020 1,150.3

Net LTV at 30 June 2020\* 45.8%

\*Pro-forma 40.3% adjusted for July capital raise

Shares in issue 1,315.6m

Free float 97%

Code PHP

Primary exchange LSE

Secondary exchange N/A

### Share price performance



### 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.

### Analyst

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PHP has announced plans to internalise its management structure by acquiring its investment adviser since launch, Nexus Tradeco. The board believes there are a number of compelling financial and strategic benefits to the proposed transaction, including c £4.0m in annual cost savings and enhanced EPS/dividend paying capacity, and securing a well-regarded management team and fully operational management platform. This includes the services of Harry Hyman as CEO of PHP, consistent with the commitment he made at the time of the MedicX merger.

Year end	Net rental income (£m)	Adj. EPRA earnings* (£m)	Adj. EPRA EPS** (p)	Adj. EPRA*** NTA/share (p)	DPS (p)	P/NTA (x)	Yield (%)
12/18	76.4	36.8	5.2	105.1	5.40	1.35	3.8
12/19	115.7	59.7	5.4	107.9	5.60	1.32	3.9
12/20e	131.7	73.2	5.7	113.2	5.90	1.25	4.2
12/21e	138.6	77.5	5.8	116.5	6.10	1.22	4.3

Note: \*Excludes valuation movements, amortisation of fair value adjustment to acquired debt, and other exceptional items. \*\*Fully 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.

PHP has conditionally agreed to acquire its investment adviser, Nexus Tradeco, and certain other activities, including the Nexus primary care development business. Nexus has been investment adviser since PHP's formation in 1995 and has built a proven record of successful investment in the sector, delivering 24 years of unbroken dividend growth. The consideration is £33.1m (subject to a completion net asset adjustment); £16.55m in cash and the balance by the issue of c 11.5m new shares at 144.1p. PHP is anticipating annual cost savings of c £4.0m pa, which if applied to our FY21 estimates is more than 4% accretive to adjusted EPRA EPS, enhancing DPS capacity. The de-linking of administrative costs from gross asset value will also allow shareholders to benefit fully from the expected future portfolio growth. We will revise our estimates after the transaction completes.

There is evidence of momentum growing in the NHS for the approval of new medical centre developments and bringing the Nexus development team and pipeline in-house seems well timed, allowing PHP to bring forward future developments using its own strongly capitalised balance sheet.

We believe the internalisation is likely to broaden investor interest in the company, which already benefits from substantial growth, including from the MedicX merger completed in March 2019. We also believe investors will strongly welcome Mr Hyman's continuing commitment to the group for at least five years from the MedicX merger.

A circular in connection with the acquisition will be published shortly and a general meeting of shareholders on 4 January 2021 will be asked to approve certain matters necessary to implement the transaction.

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