Primary Health Properties

Post-acquisition update

A specialist REIT of scale

Primary Health Properties' (PHP's) £1.6bn accretive acquisition of Assura creates a sector specialist REIT of scale, strongly positioned to profitably deliver the investment that primary healthcare systems in both the UK and Ireland require. While UK market rental growth accelerates, the acquisition synergies provide a new driver of earnings and dividend growth. Yet the shares are yielding a highly attractive c 8%, more than 300 basis points above 10-year gilts, with a strong outlook for DPS growth.

Year end	Net rental income (£m)	Earnings (£m)	EPS (£)	NAV/share (£)	DPS (p)	P/NAV (x)	Yield (%)
12/24	153.6	92.9	6.95	1.05	6.90	0.90	7.3
12/25e	223.6	130.8	7.30	1.01	7.10	0.94	7.5
12/26e	322.9	192.2	7.40	1.04	7.30	0.91	7.7
12/27e	306.9	197.4	7.61	1.07	7.50	0.89	7.9

Notes: Earnings and EPS are shown on PHP's adjusted basis, which is EPRA earnings excluding the amortisation of mark-to-market (MtM) adjustments for fixed-rate debt acquired on the merger with MedicX. NAV per share is the company's adjusted net tangible assets (NTA) per share, which is EPRA NTA excluding the MtM adjustment of the fixed-rate debt, net of amortisation, acquired on the merger with MedicX. See pages 166 to 168 of PHP's 2024 annual report.

Integration poised to begin

While PHP owns 100% of Assura, which is now de-listed, it has been a requirement of the Competition and Markets Authority (CMA) that they be operated independently pending the outcome of its review. The CMA has now concluded that the combination of PHP and Assura gives no rise to competition concerns, such that PHP can now turn its full attention to integrating the two businesses and realising the full benefits of the combination. For the company and shareholders, this includes expected run-rate cost synergies of at least £9m. More broadly, the enlarged PHP is now in even stronger position to support the significant investment needs of the NHS.

Financial and strategic benefits

The acquisition of Assura should offer significant financial and strategic benefits. Cost synergies of at least £9m underpin a near-term acceleration in earnings growth, while increased scale and market presence strongly support the long-term outlook. The enlarged PHP is one of the largest REITs in the UK, with a c £6bn portfolio of long-leased, sustainable infrastructure assets principally let to government tenants and leading UK providers, benefiting from increased income security, longevity, diversity of product type, geography and mix of rent review. It operates in a growth sector, underpinned by demographic trends and supported by government policy, which is placing a greater focus on primary care, increasing the demand for modern healthcare facilities.

Valuation: Appealing, with income and capital upside

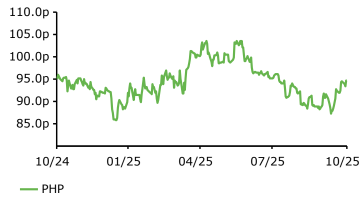
Depending on post-acquisition divestments, government backing of rental income will remain 80–90%, making the comparison with gilt yields pertinent. Unlike gilts, we expect DPS to grow and at an accelerated rate post-acquisition. Meanwhile, the shares trade at a c 10% discount to NAV. With property yields stabilising, rental growth generated H125 NAV growth and we expect this to continue.

Real estate

30 October 2025

Price	**94.80p**
Market cap	**£2,430m**
Shares in issue	2,595.1m
Code	PHP
Primary exchange	LSE
Secondary exchange	JSE

Share price performance



%	1m	3m	12m
Abs	6.8	0.3	4.6
52-week high/low		100.4p	80.7p

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 let on long leases 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

FY25 year-end	31 December 2025

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Edison profile page

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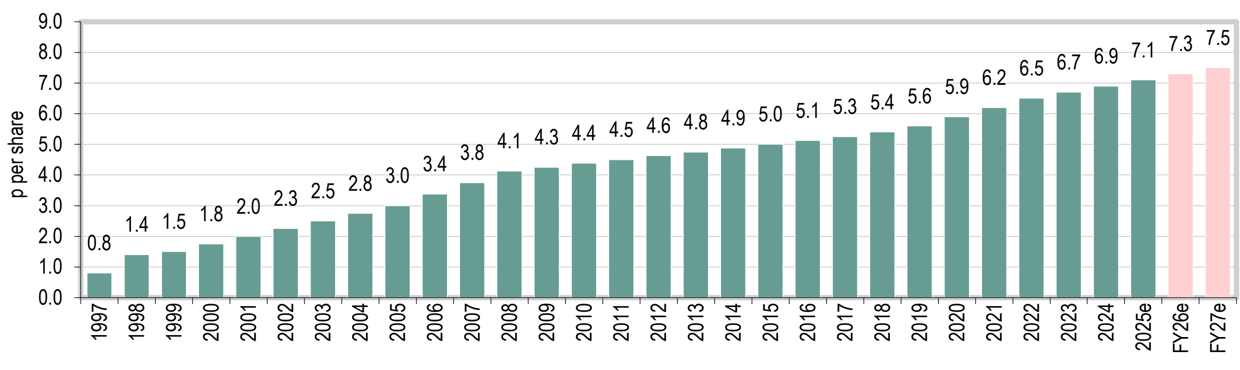
Investment summary

Long-term health and other care needs, and ultimately the demand for healthcare property, are driven by demographic trends in both the UK and Ireland. As populations grow and age, with more complex healthcare needs, governments recognise the imperative of meeting this more effectively and more efficiently. At its heart, the 10-year NHS plan focuses on modern, integrated, local primary healthcare facilities that can better serve patients, with an extended range of medical procedures and preventative services, available locally, reducing pressure on hospitals, and at significantly lower cost. From a starting point where half the existing primary care estate is inadequate, the investment needs are substantial and government recognises the role of private capital. But for the required investment to be economically viable, rents will need to rise significantly. As well as providing accretive development opportunities, this would set a positive tone for rent reviews on existing assets. The combination of PHP and Assura is even better positioned to benefit from this, with the potential to provide access to deeper pools of capital, on enhanced terms, than could be achieved by either company on its own.

Following the highly complementary acquisition of Assura, we identify a number of key reasons why the shares are attractive, including:

- **Organic growth potential.** The enlarged company will continue to benefit from accelerating rental growth. This has been the key driver of PHP's earnings performance over the past three years and this continued in H125 (see below).
- **Merger cost synergies.** PHP expects cost synergies of at least £9m per year, which it expects will be fully achieved on a run rate basis by the end of the first full financial year post-completion. The company's ability to successfully deliver on large-scale integration was demonstrated by its 2019 acquisition of MedicX. PHP regularly has one of the lowest EPRA cost ratios in the UK REIT sector and management expects this to continue.
- **Benefits of increased scale**. With a larger market value and increased index weighting we expect an improvement in share trading liquidity. The enlarged company should enjoy improved access to capital markets, enhancing its cost of capital, positioning it strongly for investment.
- **PHP has a strong commitment to dividend growth.** FY25 marks the 29th consecutive year of DPS growth since PHP was established. PHP has reiterated its progressive dividend policy and we forecast an acceleration in DPS growth post-acquisition.
- **Potential for capital growth.** Both PHP and Assura have reported a stabilisation of valuation yields, such that rental growth has begun to feed through to valuation uplifts and NAV growth.
- **A highly attractive valuation**. The c 8% FY26e dividend yield compares with the yield on the 10-year UK gilt of c 4.4%. Given the unusual strength of PHP's combined tenant covenant, with 80–90% of rents directly or indirectly government backed, and the strong prospects for dividend growth, we find this very attractive. If the c 10% discount to NAV were to narrow (over 10 years the shares have traded at an average 15% premium), the total shareholder return would be significant.

Exhibit 1: 29 years of unbroken DPS growth



Source: PHP data. Note: the fourth quarterly interim dividend for 2025 of 1.775p per share will be paid on 21 November 2025 to shareholders on the register on 10 October 2025.

Continuing organic rental growth and positive indicators

We estimate that the Assura acquisition will increase annualised contracted rents from £157m at end-H125 to c £335m. On a combined basis, the share of open market rent reviews will decline from 68% to c 60%, with indexed, fixed, or other rent reviews accounting for the balance. If Assura's c £500m private hospital portfolio is sold, as seems likely, the decline in the share of open market reviews will be immaterial.

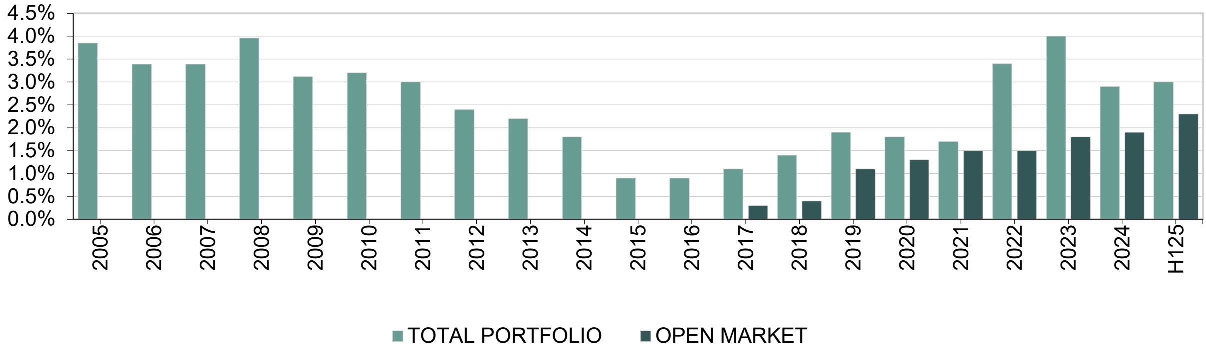
For PHP, H125 rent reviews generated an average annualised uplift of 3.0%. Most significant was the continuing improvement in open market rent reviews, with the annualised rate of increase achieved on completed reviews accelerating to 2.3% (from 1.9% in FY24 and 2.1% in H124). PHP expects open market rents will continue to increase, with new development activity and asset management, at rental levels that reflect the significant increases in construction costs in recent years, setting a positive tone for reviews on existing operational assets.

Exhibit 2: Rental uplifts on completed reviews

	2020	2021	2022	2023	2024	H125 unaudited
UK – open market	1.3%	1.5%	1.5%	1.8%	1.9%	2.3%
UK – indexed	2.3%	2.8%	7.4%	8.4%	4.6%	4.0%
UK – fixed	2.7%	2.9%	3.1%	2.7%	2.8%	2.6%
Total UK	**1.8%**	**1.7%**	**3.4%**	**4.0%**	**2.9%**	**3.0%**
Ireland – indexed	1.1%	0.8%	2.6%	3.3%	3.9%	3.4%
Total annualised increase	**1.8%**	**1.7%**	**3.4%**	**4.0%**	**2.9%**	**3.0%**

Source: PHP. Note: H125 data are unaudited from 7 July 2025 trading update.

Exhibit 3: Increasing contribution from UK open market rent growth (average annual increase on rents reviewed)



Source: PHP data, Edison Investment Research. Note: UK open market review data unavailable prior to 2017.

Property valuations increasingly reflecting rental growth

For PHP, property valuations have continued to stabilise, with rental growth more than offsetting modest yield widening of just 3bp in H125. After several years of valuation decline, as interest rates increased and the EPRA net initial yield (NIY) widened from 4.65% at end-FY21, this is a positive development. Excluding any impacts from capital expenditure and acquisition costs, this was reflected in a £19.8m net revaluation surplus. The end-H125 NIY was 5.25% and, primarily reflecting the potential upside from outstanding rent reviews, the reversionary yield was 5.6%.

PHP says that it continues to see evidence of an improving investment market for healthcare real estate in both the UK and Ireland and that improved liquidity is likely to enhance asset valuations in the future. It highlights that healthcare property is increasingly viewed as social infrastructure assets, with a growing rental income stream considered secure, long and predictable, appealing to an increasingly broad range of investors, including global infrastructure funds, pension funds and life assurance companies.

Exhibit 4: Property valuation

	H124	H224	H125
Net initial yield (%)	5.18	5.22	5.25
Change in net initial yield (bp)	13	4	3
Revaluation due to yield widening (£m)	(73.0)	(28.6)	(9.0)
Revaluation due to rental growth (£m)	33.0	30.2	28.8
Total revaluation surplus/(deficit) (£m)	**(40.0)**	**1.6**	**19.8**

Source: PHP. Note: H125 unaudited data from 7 July 2025 trading update.

Forecast update

Our update forecasts show an acceleration in earnings growth and dividends post-acquisition. For FY25, Assura will contribute for less than five months (from 12 August); with the two businesses running independently for most of this time, we assume none of the cost synergies are achieved until FY26, making a full contribution in FY27, which brings the EPRA cost ratio below 10%. PHP intends to divest parts of the combined portfolio and this is likely to include Assura's c £500m private hospital portfolio. We assume £650m of asset disposals during FY26, with the rental foregone broadly matching the interest costs savings from repayment of the relatively more expensive acquisition related debt. Asset disposals also contribute to bring the loan to value (LTV) ratio back to within the company's medium-term 40–50% target range. We also expect property revaluation gains to contribute to NAV growth and LTV reduction, with those gains broadly matching rental growth, leaving the NIY little changed. A combination of NAV growth and dividends paid generates an NAV total return of c 10% per year in FY26 and FY27.

Exhibit 5: Accelerating earnings growth

	Revised forecast			Previous forecast	
£m unless stated otherwise	**2025**	**2026**	**2027**	**2025**	**2026**
Net rental income exc PHP Axis	223.6	322.9	306.9	155.8	159.9
PHP Axis net contribution	0.5	1.1	1.5	1.4	1.5
Administrative expenses	(17.5)	(24.0)	(17.9)	(12.1)	(12.5)
Operating profit	**206.7**	**300.0**	**290.5**	**145.2**	**148.9**
Net financing costs	(76.5)	(107.9)	(93.0)	(51.0)	(54.4)
Adjusted earnings	130.1	192.2	197.4	94.2	94.5
Adjusted EPRA cost ratio	**11.3%**	**10.3%**	**9.2%**	**10.1%**	**10.1%**
Adjusted EPS (p)	**7.3**	**7.4**	**7.6**	**7.0**	**7.1**
DPS (p)	**7.1**	**7.3**	**7.5**	**7.0**	**7.1**
Dividend cover (x)	1.03	1.01	1.01	1.01	1.00
Adjusted EPRA NTA per share (p)	101	104	107	107	110
LTV	56%	50%	49%	48%	47%

Source: Edison Investment Research

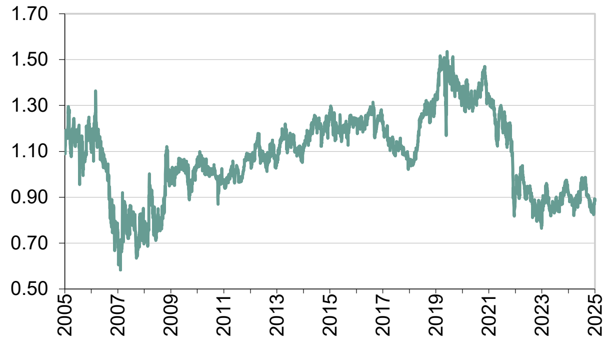
Highly attractive valuation

With a forecast FY26 yield of 8.0% and 15% discount to FY26 NAV, PHP is trading at similar levels to that seen during the global financial crisis of 2007. A movement in P/NAV towards the historical average combined with dividends paid would represent a significant shareholder total return.

Exhibit 6: Dividend yield history

Source: PHP data, LSEG Data & Analytics share prices

Exhibit 7: Price-NAV history



Source: PHP data, LSEG Data & Analytics share prices

Exhibit 8: Financial summary

Year end 31 December (£m)	2023	2024	2025e	2026e	2027e
INCOME STATEMENT					
Net rental income	149.3	153.6	223.6	322.9	306.9
PHP Axis net contribution	1.1	1.2	0.5	1.1	1.5
Administrative expenses	(11.6)	(12.1)	(17.5)	(24.0)	(17.9)
JV EPRA earnings	0.0	0.0	0.7	0.0	0.0
Net financing costs	(48.1)	(49.8)	(76.5)	(107.9)	(93.0)
Adjusted earnings	**90.7**	**92.9**	**130.8**	**192.2**	**197.4**
Amortisation of acquired debt at fair value	3.0	3.0	3.0	(13.0)	(13.0)
EPRA earnings	**93.7**	**95.9**	**133.8**	**179.2**	**184.4**
Revaluation gain/(loss) on property portfolio	(53.0)	(38.4)	64.0	65.0	80.0
Fair value gain/(loss) on interest rate derivatives & convertible bond	(13.2)	(7.6)	(7.1)	0.0	0.0
Other adjustments	(1.4)	(2.9)	163.0	(0.8)	(0.8)
IFRS PBT	**26.1**	**47.0**	**353.7**	**243.4**	**263.6**
Deferred tax	1.2	(5.6)	(2.5)	0.0	0.0
IFRS net earnings	**27.3**	**41.4**	**351.2**	**243.4**	**263.6**
Period end number of shares (m)	1,336.5	1,336.5	2,595.1	2,595.1	2,595.1
Average Number of Shares Outstanding (m)	1,336.5	1,336.5	1,793.2	2,595.1	2,595.1
Fully diluted average number of shares outstanding (m)	1,450.4	1,455.9	1,793.2	2,595.1	2,595.1
Basic IFRS EPS (p)	2.0	3.1	19.6	9.4	10.2
Adjusted EPS (p)	**6.8**	**7.0**	**7.3**	**7.4**	**7.6**
Dividend per share (p)	**6.7**	**6.9**	**7.1**	**7.3**	**7.5**
Dividend cover (x)	**1.0**	**1.0**	**1.1**	**1.0**	**1.0**
Adjusted EPRA NTA total return	1.9%	3.6%	3.0%	9.8%	10.3%
EPRA cost ratio	10.7%	10.8%	11.3%	10.3%	9.2%
BALANCE SHEET					
Non-current assets	2,786.9	2,756.0	6,014.7	5,440.9	5,520.1
Investment properties	2,779.3	2,750.1	5,944.5	5,371.5	5,451.5
Other non-current assets	7.6	5.9	70.2	69.4	68.6
Current Assets	40.0	35.3	103.0	88.9	91.9
Cash & equivalents	3.2	3.5	26.0	11.9	14.9
Other current assets	36.8	31.8	77.0	77.0	77.0
Current Liabilities	(71.2)	(213.7)	(155.9)	(155.9)	(155.9)
Current borrowing	(2.4)	(151.7)	0.0	0.0	0.0
Other current liabilities	(68.8)	(62.0)	(155.9)	(155.9)	(155.9)
Non-current liabilities	(1,331.8)	(1,201.6)	(3,199.5)	(2,557.5)	(2,570.7)
Non-current borrowings	(1,320.9)	(1,186.5)	(3,172.3)	(2,530.3)	(2,543.5)
Other non-current liabilities	(10.9)	(15.1)	(27.2)	(27.2)	(27.2)
Net Assets	1,423.9	1,376.0	2,762.3	2,816.3	2,885.3
Derivative interest rate swaps	(2.7)	(0.2)	0.1	(0.8)	(0.8)
Change in fair value of convertible bond	(2.3)	(1.7)	0.0	0.0	0.0
Other EPRA adjustments	26.1	29.0	(139.2)	(125.4)	(111.6)
Adjusted EPRA net tangible assets (NTA)	**1,445.0**	**1,403.1**	**2,623.2**	**2,690.1**	**2,772.9**
IFRS NAV per share (p)	107	103	106	109	111
Adjusted EPRA NTA per share (p)	108	105	101	104	107
CASH FLOW					
Operating Cash Flow	133.1	135.2	209.8	300.0	290.5
Net Interest & other financing charges	(47.1)	(49.9)	(73.5)	(102.7)	(87.8)
Acquisitions/disposal of properties	(39.5)	(20.6)	(34.1)	638.0	0.0
Debt drawn/(repaid)	23.6	27.7	475.4	(660.0)	(5.0)
Equity dividends paid (net of scrip)	(89.5)	(92.1)	(117.2)	(189.4)	(194.6)
Other cash movements and FX	(6.5)	0.0	(437.7)	0.0	0.0
Net change in cash	(25.9)	0.3	22.5	(14.1)	3.0
Opening cash & equivalents	29.1	3.2	3.5	26.0	11.9
Closing net cash & equivalents	3.2	3.5	26.0	11.9	14.9
Debt as per balance sheet	(1,323.3)	(1,338.2)	(3,172.3)	(2,530.3)	(2,543.5)
Convertible bond fair value adjustment	(2.3)	(1.7)	(0.0)	0.0	0.0
Unamortised borrowing costs	(12.7)	(12.2)	(16.7)	(11.5)	(6.3)
Fair value of acquired debt	28.4	25.3	(145.6)	(132.6)	(119.6)
Closing net debt/(cash)	(1,306.7)	(1,323.3)	(3,308.5)	(2,662.5)	(2,654.5)
Net LTV	47%	48%	56%	50%	49%

Source: PHP, Edison Investment Research

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