Target Healthcare REIT

Interim results

Growth from a firm base

Real estate

Target Healthcare REIT's decision to rebase the quarterly DPS targeted for H223 (-17% to 1.4p per quarter) established full DPS cover from a base that we forecast will grow, driven by indexed rental growth. The yield remains attractive and rather than the rebase signalling new challenges, operational performance continues to strengthen.

Year end	Rental income (£m)	Adjusted earnings* (£m)	Adjusted EPS* (p)	NAV**/ share (p)	DPS (p)	P/NAV (x)	Yield (%)
06/21	50.0	26.0	5.5	110.4	6.72	0.69	8.8
06/22	63.9	30.2	5.0	112.3	6.76	0.68	8.9
06/23e	68.6	36.2	5.8	102.0	6.18	0.75	8.1
06/24e	72.7	37.4	6.0	105.3	5.80	0.72	7.6

Note: *Adjusted earnings exclude revaluation movements, non-cash income arising from the accounting treatment of lease incentives and guaranteed rent review uplifts and acquisition costs and include development interest under forward-fund agreements. **NAV is net tangible assets (NTA) throughout this report.

Earnings growth on track while DPS rebased

The six months to 31 December 2022 (H123) was consistent with Target's medium-term earnings growth prospects, based on indexed-linked rent uplifts, a growing contribution from prior year acquisitions, development completions and an increase in rent collection. The increase in borrowing costs is yet to be fully reflected in earnings but drawn debt is now fixed or hedged. Operational progress is supportive, with tenants continuing to offset inflationary pressures with strong fee growth and occupancy increases, reflected in increased rent cover, continuing into H223. Although the path to dividend cover was slowed by higher interest rates, coming soon after the pandemic, we estimate that over a three-year period, with dividends held constant, this would have been achieved. By bringing cover forward, the dividend re-balancing provides the company with greater flexibility to selectively grow its portfolio and we forecast an early return to dividend growth. Our revised forecasts reflect the dividend rebasing with no other material underlying change.

Sustainably meeting a long-term need

A growing elderly population and the need to improve the existing estate point to continuing demand for modern, high-quality, ESG-compliant residential facilities. With its unwavering focus on asset quality, these are the homes in which Target invests. Not only are they appealing to residents (two-thirds private pay), but they support operators in providing better, more efficient and more effective care. When let at sustainable rent levels in well-located areas, with strong supply/demand characteristics, they will always be attractive to existing or alternative tenants and are key to providing sustainable, long-duration, inflation-linked income.

Valuation: Attractive yield, positioned for DPS growth

The rebased annualised rate of DPS (5.6p), fully covered on a run-rate basis, reflects an attractive prospective yield of 7.4% and is a base from which to grow. We forecast 3.6% growth in FY24. Meanwhile, the discount to H123 NAV is c 25%.

24 April 2023

Price	**76p**
Market cap	**£471m**

Net debt (£m) at 31 December 2022	218.2
Net LTV at 31 December 2022	25.1%
Shares in issue	620.2m
Free float	100%
Code	THRL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	8.7	(8.0)	(33.5)
Rel (local)	3.9	(9.0)	(34.4)
52-week high/low		119.2p	66.7p

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

Q323 NAV and trading update	Exp. May 2023

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Edison profile page

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Growth from a firm base

In this note we briefly review the modest changes to our forecasts, set out in detail in our February 2023 update, and provide the background to the dividend rebasing. We believe it is important to focus on the operational update provided by the annual report, including positive indicators for tenant performance and their ability to manage the inflationary challenge, reflected in rent cover and rent collection metrics for Target. A detailed summary of the H123 results and an update on debt financing is nonetheless provided at the end of the report.

Background to the dividend decision

Target is primarily focused on income returns, and maintaining a high distribution to shareholders has always been important to the board. Although on an EPRA basis DPS has been fully covered by earnings since listing (generally at 1x or above until FY22), dividend decisions have primarily been made by reference to adjusted earnings, which exclude IFRS non-cash rent smoothing adjustments,[1] a significant contributor to EPRA earnings. The company has aimed for DPS to be fully covered by adjusted earnings assuming full deployment of available capital, and as it has been consistently growing its portfolio since listing it is yet to reach full cover on a reported basis.

However, the normal path to dividend cover has been slowed by rising interest rates, with a two-fold impact. While capital costs have increased, the opportunities to make accretive acquisitions have been limited by property values remaining firm due to continuing strong investor demand.[2] At the same time, although 96% of drawn debt is now fixed/hedged, it is at a higher average cost,

Coming out of the pandemic, dividend cover has also been held back by a small number of tenants taking longer than hoped to rebuild privately funded resident occupancy in their homes. Tenant performance and rent collection is now improving and we estimate that in combination with inflation-linked rental growth development completions, full cover of dividends at the previous level would have achieved, but not until FY25.

It is nonetheless the case that there are some investors with a preference for fully covered dividends. Uncovered dividends also require capital resources to be diverted away from long-term growth and in the near term require additional borrowing, which is unattractive at higher borrowing rates.

For this reason, the newly constituted board[3] took the decision to rebase DPS to a level that would immediately restore dividend cover and create a sustainable base for future growth. The 17% reduction in quarterly DPS to 1.9p (5.6p annualised) will apply from Q323 until indicated otherwise. Including the first two quarterly DPS of 3.38p in aggregate, this would represent FY23 aggregate DPS of 6.18p.

[1] Predominantly the recognition of future contractual rent uplifts, which IFRS requires to be recognised on a straight-line basis.

[2] Target has continued to invest in homes currently under development and since end-H123 has acquired the land site for a new 60-bed development.

[3] The AGM on 6 December approved a new chairman (Alison Fyfe) and two new non-executive directors.

Exhibit 1: Total returns, without re-investment of dividends**

Pence per share unless stated otherwise	FY14*	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	H123	FY14–H123
Opening NAV	98.0	94.7	97.9	100.6	101.9	105.7	107.5	108.1	110.4	112.3	98.0
Closing NAV	94.7	97.9	100.6	101.9	105.7	107.5	108.1	110.4	112.3	103.0	103.0
DPS paid	6.5	6.1	6.2	6.3	6.4	6.5	6.7	6.7	6.8	3.4	61.5
Dividend return	6.6%	6.4%	6.3%	6.2%	6.3%	6.2%	6.2%	6.2%	6.1%	3.0%	62.7%
Capital return	-3.3%	3.3%	2.7%	1.3%	3.8%	1.6%	0.6%	2.2%	1.7%	-8.3%	5.1%
NAV total return	3.3%	9.7%	9.0%	7.5%	10.1%	7.8%	6.8%	8.4%	7.8%	-5.3%	67.8%
Average total return pa											5.3%

Source: Target Healthcare REIT data, Edison Investment Research. Note: *22 January 2013 to 30 June 2014. **Target estimates a total return of 91.2% including reinvestment of dividends.

Modest changes to forecasts

Although we do not publish interim forecasts, H123 was consistent with the underlying full year forecasts published in our February note and we have made no material changes other than for the dividend rebasing. We have corrected our treatment of the £2.5m cost of the new £50m nominal swap, capitalising it and amortising it within interest expense over the three-year duration. Before amortisation, this accounting adjustment has a positive impact of £2.5m on our EPRA earnings forecast but no impact on adjusted earnings, for which we had previously made an adjustment. We have also pushed back development completions but in adjusted earnings this is compensated by increased development interest.

Exhibit 2: Summary of forecasts

	New forecast		Previous forecast		Change		Change (%)	
£m unless stated otherwise	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
Cash rental income	57.1	61.3	57.1	61.7	0.1	(0.4)	0.1%	-0.6%
Credit loss allowance	(1.0)	(1.5)	(1.2)	(1.5)	0.2	0.0		
Expenses	(10.6)	(10.7)	(11.0)	(11.0)	0.3	0.4	-3.1%	-3.4%
Net finance costs	(9.9)	(12.2)	(9.7)	(11.5)	(0.2)	(0.8)	2.5%	6.6%
Adjust for development interest under forward fund agreements	0.6	0.5	1.0	0.1	(0.4)	0.4		
Adjusted earnings	36.2	37.4	36.3	37.7	(0.0)	(0.4)	0.0%	-1.0%
Adjust for development interest under forward fund agreements	(0.6)	(0.5)	(1.0)	(0.1)	0.4	(0.4)		
Non-cash IFRS adjustments	11.4	11.4	11.0	11.4	0.4	(0.1)		
Acquisition of swap	0.0	0.0	(2.5)	0.0	2.5	0.0		
EPRA earnings	47.0	48.3	43.7	49.1	3.3	(0.8)	7.5%	-1.7%
EPRA EPS (p)	7.6	7.8	7.1	7.9	0.5	(0.1)	7.5%	-1.7%
Adjusted EPS (p)	5.8	6.0	5.8	6.1	(0.00)	(0.06)	0.0%	-1.0%
DPS declared (p)	6.2	5.8	6.8	6.8	(0.58)	(0.96)	-8.6%	-14.2%
EPRA DPS cover (x)	1.23	1.34	1.04	1.17				
Adjusted DPS cover (x)	0.95	1.04	0.86	0.90				
EPRA NTA per share (NAV) (p)	102.0	105.3	102.7	105.6	(0.7)	(0.3)	-0.7%	-0.3%
NAV total return	-3.4%	8.9%	-2.5%	9.4%				

Source: Edison Investment Research forecasts

We now expect the rebased DPS to be fully covered by adjusted earnings in H223 (1.03; 0.95x for the full FY23 year). For FY24 we have assumed that quarterly DPS begins to increase in line with the company's intention to return to progressive fully covered DPS.

Fee growth and occupancy improvements are mitigating inflationary pressure on tenants

The COVID-19 pandemic presented many operational financial challenges to home operators and although it may not be over, the effects have become considerably more manageable. The key concerns for the sector in the second half of 2022 were the rapid acceleration in inflation and staff shortages. Increasing occupancy, recovering from the pandemic and strong fee growth, generally recognised as inevitable to support critical care needs, are mitigating inflationary cost pressures

Meanwhile, a temporary relaxation of immigration rules for care workers is relieving some of the pressure on staffing, benefiting care while reducing the cost of agency provision.

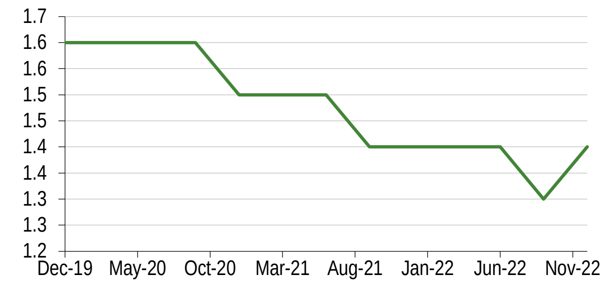
Based on data gathered from its tenants, home occupancy for mature homes[4] has increased to 84% from c 74% at the pandemic low point in April 2021. It is yet to reach the c 90% level that was typical pre-pandemic, a positive indicator for further growth in home income. In the early stages of pandemic recovery, reflecting greater average near-term flexibility over the timing of entry into a care home, those focused on privately funded residents experienced a slight lag in occupancy improvement, which now appears to be unwinding. Again, based on data collected from its tenants, the fees for 68% of residents within Target-owned homes are funded privately, wholly or through fee top-ups, ahead of the market as a whole (we estimate c 50%, with the balance of fee growth publicly sourced). Over the longer term, average weekly fee growth has more than matched inflation,[5] with private growth exceeding that of publicly funded fees. At the same time, average building quality has been enhanced as older, 'obsolete' properties have left the market to be replaced by modern, purpose-built stock. Target expects this trend to continue, despite private fees being significantly higher than publicly funded fees, particularly for high-quality real estate that it focuses on, and good care services. While recognising the role that the publicly funded sector will inevitably play in meeting growing societal demand, including near-term initiatives to free beds from the NHS, it stresses the pressures on, and limits to, local authority funding.

Rent cover is turning upwards

Occupancy growth and fee increases are supporting an increase in mature home rent cover[6] while the proportion of homes in the portfolio that have reached maturity has risen significantly.

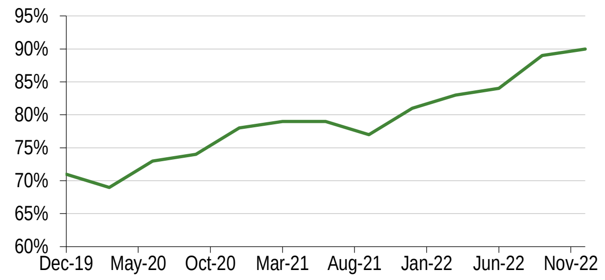
On a rolling 12-month basis, rent cover increased to 1.4x at end-December from 1.3x at end-September.1.5x and current indications are that it continues to increase. On a spot basis, rent cover in the past two quarters (to end-December) has been 1.5x.

Exhibit 3: Rent cover turning upwards



Source: Target Healthcare REIT.

Exhibit 4: Increasing share of homes at maturity



Source: Target Healthcare REIT

Target aims for rents to be a sustainable c 20% of revenues on mature homes. Combined with other operational costs the company believes that mature home rent cover of at least 1.6x remains a realistic medium-term target for a typical home.

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4 Homes that have had the same operator for a three-year period or more, and therefore excluding newly developed homes not yet stabilised.

5 Over the 24 years ending in April 2022, fees for nursing care have risen by an average of 3.6% per annum, and for residential care by an average of 3.5% per annum. RPI over that time averaged 2.8% per annum.

6 Rent cover is a key measure of the underlying profitability of tenants and the sustainability of rents. The ratio tracks operational cash earnings at the home level (before rent), or EBITDARM, with the agreed rent and is presented on a rolling 12-month basis.

Target has provided the following indicative data, based on a well-run home, with a high proportion of privately funded fees, which it believes is a representative illustration of the drivers of improving rent cover. It shows privately funded fees more than offsetting the negative impacts of lower occupancy and inflation, with rent cover increasing.

Exhibit 5: Illustrative example of the change in large home financial performance since the pandemic began*

	December 2019	December 2022	Change FY22/FY21
Average weekly fees	£801	£1,001	25%
Occupancy	97%	92%	
December 2019 fees are indexed at 100			
Privately funded	54.0	86.0	59%
Publicly funded	46.0	46.0	0%
Total income	100.0	132.0	32%
Total staff costs	(49.0)	(61.0)	24%
Other direct costs	(7.0)	(8.0)	14%
Total direct costs	(56.0)	(69.0)	23%
Gross margin (%)	44.0	63.0	43%
Overheads (heat and light)	(9.0)	(14.0)	56%
Earnings before interest, tax, depreciation, and rent (EBITDARM)	35.0	49.0	40%
Rent	(20.0)	(21.0)	5%
Rent cover (x)	1.8	2.3	

Source: Target Healthcare REIT. Note: *The data compares the final month of 2019 with the final month of 2022. The 2019 income has been rebased/indexed to 100.

Rent collection improving with increased rent cover and home maturity

The acquisition of newly built homes has been an important element in growing Target's portfolio without compromising its focus on asset quality. New homes take time to build occupancy and reach a 'stabilised' level of profitability, especially when targeting privately funded residents, a process that may take three years or more. As the pandemic hit, around 30% of Target's portfolio was categorised as immature (compared with 10% now), a combination of the recently opened homes as well as a limited number of tenants who were also maturing as businesses and were not at a stage where they had built sufficient reserves to absorb a materially slower rate of occupancy growth. As a result, rent collection has subsequently been running at c 95%.

Target has worked with struggling tenants to better understand their challenges and work with them to resolve these. In some cases, it has re-tenanted properties to alternative operators or sold them. Asset management is core to Target's strategy, and is greatly facilitated by its unwavering focus on high-quality, modern and sustainable assets, attractive to residents, operators and investors. Its investment thesis is that best-in-class properties in local areas with positive demand/supply characteristics and prevailing rental levels that are sustainable will always be attractive to existing or alternative tenants. Key portfolio metrics include:

- 97% of Target's rooms benefit from en suite wet room provision compared with 31% of total care home places in the UK, up from 14% in 2014.
- The homes are modern with 97% built since 2000.
- On average, homes provide 47sqm per resident including generous communal areas.
- 93% of the portfolio is EPC rated A or B and is compliant with the minimum energy efficiency standards anticipated to apply from 2030.

During Q123, Target reached a settlement with the operator of seven homes (c 6% of rent roll), which was only partly meeting its rent commitments, primarily due to a slow recovery from the pandemic. With the trading environment improving, the tenant renewed its long-term commitment to the homes and settled all rent in arrears, providing an immediate improvement in rent collection and generating a recovery in rent provisioning of £1.1m. Rent collection has recently increased from another tenant that has historically been responsible for a significant proportion of rent arrears, with rent having been received in full during the first two months of 2023 (H223). Additionally, the company has completed the final stage of a re-tenanting programme, leaving its tenant with three homes whose trading performance covers current rent in full. Existing lease terms, including rent levels, have been maintained with the incoming tenant being granted a short-term rent-free period to manage the rebuild in occupancy.

Interim results in more detail

Key data-points, such as the Q223 unaudited NAV, contracted rent and balance sheet highlights, had been previously disclosed and reflected in our last published note, with the H123 interim report providing the detail. In the summary below we start with adjusted earnings and reconcile to EPRA earnings and finally statutory IFRS earnings.

Exhibit 6: Summary of H123 financial performance

£m unless stated otherwise	H123	H122	H123/H222	FY22
Cash rental income	28.1	21.9	28%	48.8
Other income	0.1	0.1		1.0
Credit loss allowance	0.0	(1.1)		(3.2)
Investment management fees	(3.8)	(3.6)	7%	(7.3)
Other expenses	(1.6)	(1.6)	0%	(3.2)
Finance expense	(4.6)	(2.5)	83%	(6.6)
Development interest under forward fund agreements	0.5	0.3	37%	0.8
Adjusted earnings	18.7	13.7	37%	30.2
Development interest under forward fund agreements	(0.5)	(0.3)	37%	(0.8)
Income from guaranteed rent reviews & lease incentives	5.9	4.5	31%	10.2
EPRA earnings	24.1	17.8	35%	39.7
Realised/unrealised gains/(losses) on properties	(58.0)	0.9		5.5
Interest rate cap	(0.3)	0.0		0.0
Other income	0.0	0.0		3.9
IFRS earnings	(34.2)	18.7		49.1
Number of shares outstanding (m)	620.2	620.2	0%	620.2
Average number of shares outstanding	620.2	578.3	7%	599.1
IFRS EPS (p)	-5.51	3.24		8.20
EPRA EPS (p)	3.89	3.08	26%	6.62
Adjusted EPS (p)	3.01	2.36	28%	5.05
DPS declared (p)	3.38	3.38	0%	6.76
Dividend cover - EPRA earnings (x)	0.00	0.85		0.95
Dividend cover - Adjusted earnings (x)	0.89	0.65		0.72
EPRA NTA per share (p)	103.0	110.8		112.3
EPRA NTA total return/accounting total return	-5.2%	3.4%		7.8%
Investment properties including investment via loans	867.7	870.5		911.6
Borrowings	240.0	222.8		234.8
Cash	21.8	34.6		34.5
Gross LTV	27.7%	25.6%		25.8%
Net LTV	25.1%	20.7%		22.0%

Source: Target Healthcare REIT data, Edison Investment Research

In particular we note:

- On annualised basis, contracted rent roll ended H123 at £57.1m, an increase of c 7% from £53.4m at end-H122 and £55.5m at end-FY22. Growth was driven by acquisitions, development completions and indexed rent growth. In the income statement, as previous acquisitions and development completions contributed more fully, cash rental income increased 28% versus H122.

- Although Target continues to accrue rent provisions, in H123 these were offset by the full recovery of rent outstanding from one tenant, of which £1.1m had been provided for at end-FY22.
- Management fee growth increased in line with average equity, which included a full period contribution from the £125m equity raise in the prior year period. Other expenses were flat. The EPRA cost ratio reduced to 15.7% from 23.3% in H122 (FY22: 21.5%). Excluding credit loss allowances the H123 cost ratio was 15.8% compared with 19.3% in H122 and 16.4% in FY22.
- Interest expense increased with higher interest rates and higher average borrowings. The weighted average cost of drawn borrowing (including loan fee amortisation) increased to 3.8% at end-H123 from 3.3% at end-FY22.
- Adjusted earnings (before non-cash IFRS accounting items but including interest income earned on development funding) increased by 37% to £28.1m versus H122 and also increased versus H222 (£26.9m). Allowing for a higher average number of shares in issue, adjusted EPS increased 28% to 3.01p. Including the non-cash IFRS rental adjustments but excluding the development interest under forward funding agreements, EPRA EPS earnings increased 35% to £24.1m and EPRA EPS by 26% to 3.89p.
- H123 DPS continued at 1.69p per quarter (unchanged) and the rebased level of 1.4p per quarter will apply from Q323. H123 DPS was covered 89% by adjusted earnings.
- During the period, the portfolio value decreased by 5.5% on a like-for-like basis, with yield widening of 7.3% partly offset by a 1.8% increase from index-linked rental uplifts.
- EPRA NTA per share of 103.0p was 8% lower than the 112.3p at the start of the period (FY22). Adjusting for dividends paid but not reinvested, the H123 NAV total return was -5.3%.

Debt financing at fixed cost

Of Target's £320m of debt facilities, £240m was drawn at end-H123, with an average term to maturity of 6.7 years. 96% of drawn borrowings were fixed or hedged in a way that leaves Target with no material exposure to a further rise in interest rates until 2025 and the flexibility to act as interest rates decline as is the market consensus expectation. The drawn debt included £150m of long-term fixed-rate debt and £90m of shorter-term revolving credit facilities (RCF). The cost of the RCF drawings is protected to maturity by an existing £30m nominal interest rate swap and a £50m nominal interest rate cap (at 3.0%) entered into on 1 November 2022. The premium paid for the cap was c £2.5m. The blended average cost of 3.8% pa is including amortisation of capitalised loan arrangement fees.

Allowing for all capital commitments, £62m was available when the H223 results were published, which includes the proceeds of the Northern Ireland disposal, which provides flexibility with regard to capital allocation for activities such as making strategically important new investments, portfolio improvements or other asset management initiatives.

Capital values

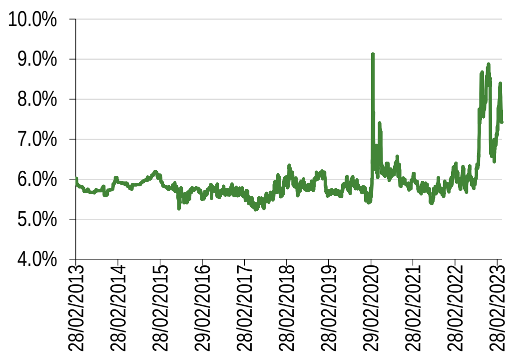
Although healthcare property has not been immune to property yield widening (valuation decline) across the UK commercial property sector, particularly in the final quarter of 2022, it has demonstrated resilience. The average like-for-like valuation decline in Target's portfolio in the six months to 31 December 2022 (H123) was 5.5%, which according to data from CBRE and MSCI compares favourably to the broad UK commercial market decline of c 19%. For Target, 1.8% like-for-like rental growth provided a partial offset to the negative impact of yield widening (c 40bp to an ERPRA net initial yield of 6.22%), nearly all of which in Q4 2002. Target's very long-term leases (27-ear weighted average lease term), upwards-only, indexed linked rent uplifts (typically capped at 4% with a floor at 2%) and asset quality will all have benefited its property values in combination with positive demographic growth drivers, little related to the wider economy. Despite a pause in activity in H222 due to the level of financial uncertainty there have been signs of recovery in the opening months of 2023, and we expect care home property investors to remain attracted to good-quality property in the sector, demonstrated by Target's sale of its four assets in Northern Ireland in March 2023. The disposal price of £22m was above both the carrying value of the assets and the June 2022 valuation, despite the general fall in property values seen during the second half of 2022 and locked in an annualised internal rate of return in excess of 10% over the period of ownership. The company says that although the homes have produced strong returns, because of staffing difficulties and a weak private pay market, as part of its asset management strategy it expects to achieve stronger returns by reallocating capital.

We do not anticipate any significant further yield widening and the additional further increase in the EPRA topped-up net initial yield (c 18bp to c 6.4%) implied in our forecasts may turn out to be conservative.

Dividend yield remains attractive despite the rebasing

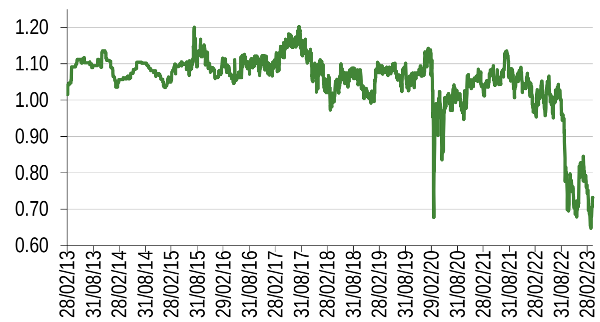
The rebased annualised rate of DPS of 5.6p represents a prospective yield of 7.4%, close to the recent peak and the level reached during the height of pandemic uncertainty. Similarly, the c 25% discount to H123 NAV of 103p (P/NAV of c 0.75x) is not far above the recent trough and close to the pandemic low point.

Exhibit 7: Dividend yield remains attractively high despite dividend rebasing



Source: Target Healthcare REIT DPS data, Refinitiv prices

Exhibit 8: P/NAV appears to discount material further property yield widening (valuation decline)



Source: Target Healthcare REIT NAV per share data, Refinitiv prices

In Exhibit 9, we summarise the performance and valuation of a group of real estate investment trusts that we consider to be Target's closest peers within the broad and diverse commercial property sector. The peer group is invested in the primary healthcare, supported housing and care home sectors, all targeting stable, long-term income growth derived from long lease exposures. For consistency, the data are presented on a trailing basis and the Target yield does not yet reflect the dividend rebasing. The rebased DPS prospective yield of 7.4% is slightly below the peer group average of 8.0%, while the P/NAV is similar. This prospective yield positions Target between the primary healthcare investors (Assura and PHP) and the social housing investors (Civitas and Triple Point). The primary care investors benefit from significant covenant strength (c 90% of rents paid directly or indirectly by government) but weighted average unexpired lease terms (WAULTs) and asset yields are below the peer group average and rent growth is heavily reliant on below inflation open market settlements. Like Target, the social housing investors have long WAULTs and benefit from inflation-indexed rents. Although we believe that for the social housing investors, market concerns about the strength of the tenant covenant and the sustainability of the funding model are overly pessimistic, the care home sector has already demonstrated its robustness through the pandemic challenge. With its dividend set at a sustainable level, Target has the potential to benefit from continuing growth and a re-rating.

Exhibit 9: Peer valuation and performance summary

	WAULT* (years)	Price (p)	Market cap. (£m)	P/NAV** (x)	Yield*** (%)	Share price performance			
						1 month	3 months	1 year	3 years
Assura	12	50	1482	0.83	6.1	3%	-10%	-25%	-35%
Civitas Social Housing	22	56	341	0.51	10.1	6%	5%	-35%	-43%
Impact Healthcare	20	96	398	0.87	6.8	4%	-10%	-23%	-2%
Primary Health Properties	12	105	1403	0.93	6.2	5%	-6%	-29%	-32%
Residential Secure Income	N/A	66	122	0.70	7.8	9%	-14%	-39%	-27%
Triple Point Social Housing	26	50	201	0.46	10.9	16%	-3%	-43%	-50%
Average	18			0.72	8.0	7%	-6%	-33%	-32%
Target Healthcare	27	76	471	0.74	8.9	13%	-7%	-33%	-30%
UK property sector index		1,321				9%	-5%	-31%	-7%
UK equity market index		4,298				6%	1%	3%	36%

Source: company data, Refinitiv pricing at 24 April 2023. Note: *Weighted average unexpired lease term. **Based on last reported NAV/NTA. ***Based on trailing 12-month DPS declared.

Exhibit 10: Financial summary

Year to 30 June (£m)	2020	2021	2022	2023e	2024e
INCOME STATEMENT					
Rent revenue	36.0	41.2	48.8	57.1	61.3
Movement in lease incentive/fixed rent review adjustment	8.2	8.7	10.2	11.4	11.4
Other income	0.0	0.1	4.8	0.1	0.0
Total revenue	44.3	50.0	63.9	68.6	72.7
Gains/(losses) on revaluation	1.7	9.4	5.5	(67.9)	11.3
Realised gains/(losses) on disposal	0.6	1.3	0.0	0.0	0.0
Management fee	(5.3)	(5.8)	(7.3)	(7.4)	(7.2)
Credit loss allowance & bad debts	(2.1)	(2.7)	(3.2)	(1.0)	(1.5)
Other expenses	(2.2)	(2.6)	(3.2)	(3.3)	(3.4)
Operating profit	37.0	49.6	55.7	(10.9)	71.8
Net finance cost	(5.4)	(5.7)	(6.6)	(10.2)	(12.2)
Profit before taxation	31.6	43.9	49.1	(21.1)	59.6
Tax	0.0	0.0	(0.0)	0.0	0.0
IFRS net result	31.6	43.9	49.1	(21.1)	59.6
Adjust for:					
Gains/(losses) on revaluation	(0.2)	(9.5)	(5.6)	67.9	(11.3)
Other EPRA adjustments	(1.0)	(0.3)	(3.9)	0.2	0.0
EPRA earnings	30.5	34.0	39.7	47.0	48.3
Adjust for fixed/guaranteed rent reviews	(8.2)	(8.7)	(10.2)	(11.4)	(11.4)
Adjust for development interest under forward fund agreements	1.0	0.6	0.8	0.6	0.5
Adjust for interest cap premium paid	0.0	0.0	0.0		
Group adjusted earnings	23.2	26.0	30.2	36.2	37.4
Average number of shares in issue (m)	440.3	475.4	599.1	620.2	620.2
IFRS EPS (p)	7.18	9.23	8.20	(3.41)	9.60
EPRA EPS (p)	6.9	7.2	6.6	7.6	7.8
Adjusted EPS (p)	5.3	5.5	5.0	5.8	6.0
Dividend per share (declared) (p)	6.68	6.72	6.76	6.18	5.80
Dividend cover (EPRA earnings) (x)	1.00	1.05	0.95	1.23	1.34
Dividend cover (Adjusted earnings) (x)	0.76	0.80	0.72	0.95	1.04
BALANCE SHEET					
Investment properties	570.1	631.2	857.7	812.3	849.1
Other non-current assets	46.0	54.8	65.9	81.8	93.2
Non-current assets	616.1	686.0	923.6	894.1	942.3
Cash and equivalents	36.4	21.1	34.5	6.7	(0.3)
Other current assets	11.2	11.3	5.5	5.2	5.5
Current assets	47.6	32.4	40.0	11.9	5.3
Bank loan	(150.1)	(127.9)	(231.4)	(236.4)	(255.8)
Other non-current liabilities	(6.4)	(6.8)	(7.1)	(7.3)	(7.3)
Non-current liabilities	(156.5)	(134.7)	(238.5)	(243.7)	(263.1)
Trade and other payables	(13.1)	(18.5)	(26.4)	(24.2)	(25.8)
Current Liabilities	(13.1)	(18.5)	(26.4)	(24.2)	(25.8)
Net assets	494.1	565.2	698.8	638.0	658.6
Adjust for derivative financial liability	0.2	(0.3)	(2.3)	(5.4)	(5.4)
EPRA net assets	494.3	564.9	696.5	632.6	653.1
Period end shares (m)	457.5	511.5	620.2	620.2	620.2
IFRS NAV per share (p)	108.0	110.5	112.7	102.9	106.2
EPRA NTA per share (p)	108.1	110.4	112.3	102.0	105.3
EPRA NTA total return	6.8%	8.4%	7.8%	-3.4%	8.9%
CASH FLOW					
Cash flow from operations	25.6	29.2	35.6	50.0	47.1
Net interest paid	(4.1)	(4.2)	(5.2)	(9.7)	(12.8)
Tax paid	(0.1)	(0.0)	(0.0)	0.0	0.0
Net cash flow from operating activities	21.5	25.0	30.4	40.3	34.3
Purchase of investment properties	(117.5)	(51.4)	(207.0)	(34.8)	(25.5)
Disposal of investment properties	14.1	7.8	4.4	4.3	0.0
Net cash flow from investing activities	(103.4)	(43.6)	(202.6)	(30.5)	(25.5)
Issue of ordinary share capital (net of expenses)	78.2	58.3	122.5	0.0	0.0
(Repayment)/drawdown of loans	44.0	(22.0)	104.8	5.3	20.0
Dividends paid	(29.2)	(31.5)	(39.8)	(40.0)	(35.7)
Other	(1.6)	(1.5)	(1.8)	(0.2)	0.0
Net cash flow from financing activities	91.4	3.3	185.6	(35.0)	(15.7)
Net change in cash and equivalents	9.5	(15.3)	13.4	(25.2)	(6.9)
Opening cash and equivalents	26.9	36.4	21.1	34.5	9.3
Closing cash and equivalents	36.4	21.1	34.5	9.3	2.3
Balance sheet debt	(150.1)	(127.9)	(231.4)	(236.4)	(255.8)
Unamortised loan arrangement costs	(1.9)	(2.1)	(3.4)	(3.6)	(4.2)
Net cash/(debt)	(115.6)	(108.9)	(200.3)	(230.7)	(257.7)
Gross LTV	24.9%	19.2%	25.8%	27.2%	28.0%
Net LTV	18.9%	16.1%	22.0%	26.2%	27.7%

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

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