EDISON

Target Healthcare REIT

Strong close to FY25

Q425 update

Real estate

11 August 2025

Target Healthcare REIT's Q425 update shows indexed rent reviews continuing to drive increased earnings and property values, underpinning growing DPS. Q425 NAV total return was a strong 2.9%, taking the annual total to 9.0%. We will review our estimates when the FY25 results are published in detail in September, but continue to expect rental growth, a full-year contribution from development completions and asset management to drive further growth.

Year end	Net rental income (£m)	EPRA earnings (£m)	EPRA EPS (p)	NAV/share (£)	DPS (p)	P/NAV (x)	Yield (%)
6/24	69.6	38.0	6.1	1.11	5.71	0.91	5.7
6/25e	71.0	38.6	6.2	1.14	5.88	0.88	5.8
6/26e	72.9	39.7	6.4	1.17	6.06	0.86	6.0
6/27e	73.9	40.6	6.6	1.21	6.22	0.83	6.2

Note: EPRA earnings is shown on an adjusted basis, excluding IFRS rent smoothing adjustments and including interest earned on development funding. NAV is net tangible assets throughout this report.

Q425 data consistent with our forecasts

Effectively all rents are inflation-linked and a 0.9% like-for-like increase in Q425 took the annual total to more than 3%. The EPRA topped-up net initial yield has been stable throughout the year such that rent growth has generated property valuation gains in each quarter. The unaudited aggregate quarterly data are broadly consistent with our FY25 forecasts, showing adjusted EPS of c 6.1p (slightly below), NAV per share of 114.8p (slightly above) and a loan to value ratio (LTV) of 21.8%. Rent collection of 97% through H225 is at a good level but down from 99% in FY24. Target has been active in re-tenanting homes from weaker to stronger tenants, made easier by their quality and attractiveness to operators, and expects rent collection to improve in the coming quarters. The company is well advanced with refinancing the borrowing facilities that mature in November and the expected increase in borrowing cost is built into our forecasts.

Sustainable earnings and social benefits

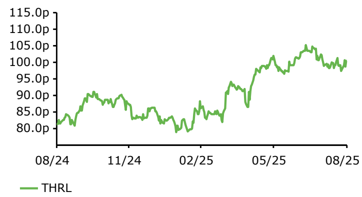
In a structurally supported sector, Target's investment case is differentiated by its unwavering focus on asset quality. It invests in modern, purpose-built properties that are appealing to residents (two-thirds private pay), support operators in providing better, more efficient and more effective care, and provide sustainable, long-term investment income. 100% of its homes are EPC rated A or B and compliant with the minimum energy efficiency standards anticipated to apply from 2030. All of its rooms have full en-suite wet room facilities (compared with little more than 30% for the sector). Target's 2024 Global Real Estate Sustainability Benchmark sustainability score was 71 versus a peer average of 65, placing it second among peers.

Attractive yield with positive growth outlook

The shares are up c 20% ytd, but there is plenty of scope for this to continue. The FY25 DPS of 5.884p (+3% vs FY24) was well covered and represents a yield of 5.8%. In addition to continuing DPS uplifts, we expect NAV to increase, driven by rent indexation, with a potential additional benefit from any property yield tightening. Meanwhile, the shares continue to trade at a c 12% discount to NAV.

Price	**100.80p**
Market cap	**£625m**
Net cash/(debt) at 30 June 2025	£(202.3)m
Shares in issue	620.2m
Code	THRL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.6)	1.1	32.3
52-week high/low		107.0p	73.9p

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

FY25 results	Expected September 2025

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Additional details from the quarterly update

Earnings and capital growth

Revaluation movements were positive in each of the quarters, driven by rental growth and a stable EPRA topped-up net initial yield (6.22% at end Q425). FY25 DPS of 5.884 was c 1.03x covered by adjusted EPS. The revenue reserve movement in Exhibit 1 is equivalent to EPRA earnings, adjusted down to exclude non-cash IFRS smoothing adjustments to rental income. The company's adjusted EPRA 'cash' earnings also include interest earned in respect of the funding advanced for development properties and gives a better indication of dividend-paying capacity. In H125, adjusted earnings of £19.4m included c £0.5m of development interest, and we expect a further, smaller contribution in H225 as the last active development project nears completion.

Exhibit 1: Unaudited quarterly data

Pence per share	Sep-24	Dec-24	Mar-25	Jun-25
	Q125	Q225	Q325	Q425
Opening NAV	110.7	111.7	112.7	113.0
Revaluation gains/(losses) on investment properties	0.8	0.8	0.3	1.4
Revaluation gains/(losses) on assets under construction	0.1	0.1	0.0	0.0
Total property revaluation	**0.9**	**0.9**	**0.3**	**1.4**
Gain/(loss) on disposal	0.0	0.0	0.0	0.2
Surrender premium	0.0	0.0	0.0	0.2
Movement in revenue reserve	1.5	1.6	1.5	1.5
Dividend paid	(1.4)	(1.5)	(1.5)	(1.5)
Closing NAV	**111.7**	**112.7**	**113.0**	**114.8**
Dividend return	1.3%	1.3%	1.3%	1.3%
Capital return	0.9%	0.9%	0.3%	1.6%
NAV total return	**2.2%**	**2.2%**	**1.6%**	**2.9%**
Adjusted EPS	1.6	1.6	1.5	1.5
DPS	1.5	1.5	1.5	1.5
Dividend cover	1.1	1.1	1.0	1.0

Source: Target Healthcare REIT

Active asset management

Target continues to actively manage its assets and tenancies, in particular in relation to a handful of (the 93) homes where the operators are, or have been, facing operational or financial challenges, in some cases negatively affecting rent collection.

With one tenant, the company has successfully negotiated the sale of one home and the re-tenanting of two others, with minimal disruption to the homes' residents while also delivering attractive financial returns. The home sold was for a consideration of £9.6m after costs, a premium of 8% to the end-March valuation.

Of the two homes where re-tenanting has been completed or agreed, one has transferred to an existing tenant of the group. As part of the transaction, Target received a surrender premium from the outgoing tenant in excess of costs and incentives granted to the incoming tenant. The contracted rent remained unchanged and the lease term was extended by a further 20 years. Contracts have been exchanged for the re-tenanting of the other home to a new tenant to the group. A further surrender premium will be receivable from the incumbent tenant on completion, expected in the next three to six months following the tenant's conclusion of certain capital works. Again, there will be no changes to the significant lease terms arising from this re-tenanting, other than the extension of the lease term by a further 20 years.

Since end Q425, an additional asset has been re-tenanted, where the incumbent tenant had not been paying rent, representing 1.4% of the rent roll. Target says there was strong interest in the home from a number of operators such that it has been re-tenanted at a higher rent, with no lease incentive, and is expected to generate an immediate valuation uplift of approximately £0.3m, with the potential for further performance-linked uplifts in the future.

Discussions regarding the re-tenanting of three further properties are underway. These are leased to a single tenant representing 3.2% of the rent roll, where the rent was not paid in full for the quarter. A provision for unpaid rent was taken in Q425 and Target anticipates that rent collection will resume in the current quarter.

Debt refinancing well advanced

Target has a strong and liquid balance sheet with undrawn borrowings of £78m and total available capital of £94m, net of capital commitments. The LTV is a low 21.8% (we had forecast 22.9%). Total borrowing facilities of £320m comprise £150m of fully drawn, long-term, fixed-rate debt.

At end Q425, Target had committed debt facilities of £320m, of which £242m was drawn. Of the drawn debt, £150m is long term (first maturity in 2032) at a fixed cost of 3.3%. There are two shorter-term, floating-rate facilities (£170m in aggregate) from which £82m was drawn at end Q425, with the costs mostly (£80m) hedged until maturity in November.

In aggregate, the blended average cost of all drawn debt, including the amortisation of loan arrangement costs, was 3.84% at end Q425.

In relation to the soon-to-mature, shorter-dated debt facilities, Target has obtained credit-approved refinancing terms from each of the incumbent lenders. Target says it is pleased with the appetite shown and is evaluating the various proposals. Our forecasts include an assumption that the cost of the refinanced debt increases to 5.5%.

Driven mostly by the long-term debt and highlighting its attractiveness, the fair value of the debt significantly differs from the nominal value carried on the balance sheet. At the end of H125, the nominal value of debt was £248m while the fair value was £216m, none of which is reflected in NAV.

Exhibit 2: Financial summary

Year to 30 June (£m)	2023	2024	2025e	2026e	2027e
INCOME STATEMENT					
Rental income excluding guaranteed uplift	56.4	58.6	60.1	62.2	63.4
IFRS adjustment for guaranteed uplifts	11.3	10.9	10.9	10.7	10.5
Other income	0.1	0.0	0.0	0.0	0.0
Total revenue	67.7	69.6	71.0	72.9	73.9
Gains/(losses) on revaluation	(53.4)	24.7	7.7	7.9	8.5
Realised gains/(losses) on disposal	0.0	1.9	0.0	0.0	0.0
Management fee	(7.4)	(7.5)	(7.8)	(7.9)	(8.2)
Credit loss allowance & bad debts	(0.3)	(1.0)	(0.4)	(0.6)	(0.6)
Other expenses	(3.0)	(3.1)	(3.2)	(3.3)	(3.4)
Operating profit	3.6	84.6	67.3	69.0	70.2
Net finance cost	(10.1)	(11.6)	(11.2)	(10.7)	(10.6)
IFRS net result	(6.6)	73.0	56.1	58.3	59.6
Adjust for:					
Gains/(losses) on revaluation	54.0	(24.7)	(7.7)	(7.9)	(8.5)
Other EPRA adjustments	0.1	(1.1)	0.4	0.0	0.0
EPRA earnings	47.6	47.2	48.8	50.4	51.1
Adjust for fixed/guaranteed rent reviews	(11.3)	(10.9)	(10.9)	(10.7)	(10.5)
Adjust for development interest under forward fund agreements	1.0	1.8	0.6	0.0	0.0
Group adjusted earnings	37.2	38.0	38.6	39.7	40.6
Average number of shares in issue (m)	620.2	620.2	620.2	620.2	620.2
IFRS EPS (p)	(1.1)	11.8	9.1	9.4	9.6
EPRA EPS (p)	7.7	7.6	7.9	8.1	8.2
Adjusted EPS (p)	6.0	6.1	6.2	6.4	6.6
Dividend per share (declared) (p)	6.18	5.71	5.88	6.06	6.22
Dividend cover (EPRA earnings) (x)	1.2	1.3	1.3	1.3	1.3
Dividend cover (Adjusted earnings) (x)	1.0	1.1	1.1	1.1	1.1
BALANCE SHEET					
Investment properties	800.2	831.6	845.9	853.9	862.4
Other non-current assets	83.3	91.2	101.2	111.9	122.4
Non-current assets	883.4	922.8	947.2	965.8	984.8
Cash and equivalents	15.4	38.9	23.8	17.1	20.3
Other current assets	9.5	5.7	5.7	5.8	5.9
Current assets	24.8	44.6	29.5	22.9	26.2
Bank loan	(227.1)	(240.7)	(236.3)	(226.9)	(227.5)
Other non-current liabilities	(8.1)	(9.9)	(12.1)	(12.1)	(12.1)
Non-current liabilities	(235.1)	(250.6)	(248.4)	(239.0)	(239.7)
Trade and other payables	(18.3)	(27.5)	(21.4)	(21.9)	(22.2)
Current Liabilities	(18.3)	(27.5)	(21.4)	(21.9)	(22.2)
Net assets	654.8	689.3	706.8	727.8	749.1
Adjust for derivative financial liability	(6.9)	(2.8)	0.0	0.0	0.0
EPRA net tangible assets (NTA)	647.9	686.5	706.8	727.8	749.1
Period end shares (m)	620.2	620.2	620.2	620.2	620.2
IFRS NAV per share (p)	105.6	111.1	114.0	117.3	120.8
EPRA NTA per share (p)	104.5	110.7	114.0	117.3	120.8
EPRA NTA total return	-1.2%	11.4%	8.2%	8.2%	8.2%
CASH FLOW					
Cash flow from operations	40.8	52.2	48.7	50.7	51.4
Premium paid for interest rate cap	(2.6)	0.0	0.0	0.0	0.0
Net interest paid	(8.6)	(9.9)	(10.1)	(10.1)	(10.0)
Tax paid	0.0	0.0	0.0	0.0	0.0
Net cash flow from operating activities	29.7	42.3	38.5	40.7	41.5
Purchase of investment properties	(29.3)	(40.9)	(12.5)	0.0	0.0
Disposal of investment properties	25.8	44.3	0.0	0.0	0.0
Net cash flow from investing activities	(3.6)	3.4	(12.5)	0.0	0.0
Issue of ordinary share capital (net of expenses)	0.0	0.0	0.0	0.0	0.0
(Repayment)/drawdown of loans	(4.8)	13.0	(5.0)	(10.0)	0.0
Dividends paid	(40.3)	(35.2)	(36.2)	(37.3)	(38.3)
Other	(0.2)	0.0	0.0	0.0	0.0
Net cash flow from financing activities	(45.2)	(22.2)	(41.2)	(47.3)	(38.3)
Net change in cash and equivalents	(19.1)	23.5	(15.1)	(6.7)	3.2
Opening cash and equivalents	34.5	15.4	38.9	23.8	17.1
Closing cash and equivalents	15.4	38.9	23.8	17.1	20.3
Balance sheet debt	(227.1)	(240.7)	(236.3)	(226.9)	(227.5)
Unamortised loan arrangement costs	(2.9)	(2.3)	(1.7)	(1.1)	(0.5)
Drawn debt	(230.0)	(243.0)	(238.0)	(228.0)	(228.0)
Net cash/(debt)	(214.6)	(204.1)	(214.2)	(210.9)	(207.7)
Gross LTV	26.5%	26.7%	25.5%	23.9%	23.5%
Net LTV	24.7%	22.5%	22.9%	22.1%	21.4%

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

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