

# Primary Health Properties

Trading update

Progress with organic and acquisition-led growth

Coinciding with its FY21 AGM, Primary Health Properties (PHP) has provided a trading update for the quarter ending 31 March 2022 (Q122). During the period it made good progress in converting its investment pipeline, which continues to grow, while organic rental growth accelerated, in part driven by the inflationary environment. With ample liquidity and 97% of debt fixed/hedged, it is well placed for further growth.

Year end	Net rental income (£m)	Adjusted EPRA earnings* (£m)	Adjusted EPS** (p)	NAV per share*** (p)	DPS (p)	P/NAV (x)	Yield (%)
12/20	131.2	73.1	5.8	112.9	5.90	1.30	4.0
12/21	136.7	83.2	6.2	116.7	6.20	1.25	4.2
12/22e	141.1	86.7	6.5	120.8	6.50	1.21	4.4
12/23e	144.9	90.2	6.8	126.1	6.80	1.16	4.6

Note: \*Excludes valuation movements, amortisation of fair value adjustment to acquired debt and other exceptional items. \*\*Non-diluted. \*\*\*Defined as adjusted EPRA net tangible assets (NTA) excluding fair value of derivative interest rate contracts and convertible bond, deferred tax and fair value adjustment on acquired debt.

## Well supported DPS growth

During Q122 PHP committed to, and has recently completed, the acquisition of two operational healthcare properties for a combined £41.5m. In line with its 'Net Zero Carbon' (NZC) Framework a first NZC direct development project has also been announced, with a gross development value of £6.7m. Rent reviews (£0.6m) and 10 completed asset management projects (£0.3m) added £0.9m (0.6%) to annualised rental income (FY21: £140.7m). Completed rent reviews reflected an average 2.0% pa uplift (FY21: 1.7%). PHP is in its 28th year of unbroken dividend increases and with H122 aggregate DPS of 3.25p is unsurprisingly well on track to meet its 6.5p annual target (+4.8%), fully covered by adjusted EPRA earnings.

## Well-placed to meet health service investment needs

The long-term need for primary healthcare facilities is driven by demographic trends and is relatively unaffected by economic conditions. In both the UK and Ireland, populations are growing and ageing, with more complex healthcare needs. The pandemic has further increased the demands placed on hospitals and created a backlog of missed procedures. To relieve these pressures, the need for modern, integrated, local primary healthcare facilities has become yet more pressing. PHP is well-placed to help meet this need for investment and grow further; it has c £270m of available funding headroom and its strong pipeline of investment opportunities has grown to c £482m, of which c £139m is in legal due diligence. With the positive rent review data our FY22e adjusted EPRA earnings increases £0.5m/0.6%.

## Valuation: Securely growing income

PHP's valuation is driven by its income visibility and security, with strong prospects for further growth in income and dividends. Leases are long and substantially upward-only leases, 90% backed directly or indirectly by government bodies, with little exposure to the economic cycle or fluctuations in occupancy. The FY22e DPS of 6.5p fully covered by adjusted EPRA earnings, represents a yield of 4.4%, supporting an FY21 P/NAV of 1.2x.

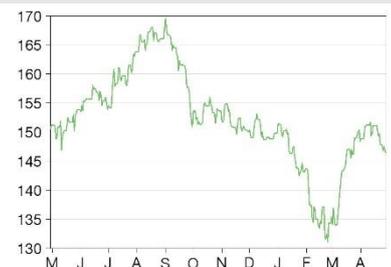
Real estate

29 April 2022

Price **146.4p**  
Market cap **£1,951m**

Net debt (£m) as at 31 March 2022	1,217
Net LTV as at 31 March 2022 (31 December 2021 pro forma)	43.3%
Shares in issue	1,333.3m
Free float	97%
Code	PHP
Primary exchange	LSE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(2.0)	2.2	(2.3)
Rel (local)	(2.0)	2.6	(6.7)
52-week high/low		169.6p	131.1p

### 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

H122 results	July 2022
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## Further details

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Our [Outlook note](#) published in March 2022 provides a detailed review of PHP's strategy, recent financial performance and our forecasts, towards which the trading update indicates good progress.

### The recently announced investments include:

- The £34.5m acquisition of a large, state-of-the-art diagnostic centre in Chiswick, London, let to HCA healthcare.
- The £7.0m acquisition of a clinical facility in Chertsey, let to the NHS.
- The direct development of a NZC purpose-built medical centre at Eastergate in West Sussex, with a gross development value of £6.7m. The development will be one of the UK's first NZC healthcare facilities and demonstrates PHP's strategic commitment to transitioning all its operational, development and asset management activities to NZC by 2030 and to help occupiers achieve NZC by 2040.

In aggregate these transactions amount to £48.2m, representing good progress in converting the pipeline of investment opportunities into committed investments/acquisitions, and are in line with our assumption of c £120m for FY22.

The current investment pipeline comprises £360m in the UK and €145m (£122m equivalent) in Ireland. The potential transactions in legal due diligence are £65m in the UK and €87m (£74m equivalent) in Ireland.

**The increase in rental uplifts on completed reviews is encouraging.** Of total rents, 25% are indexed to RPI<sup>1</sup> and recently increased inflation will progressively feed into rent reviews. Another 6% of rents provide fixed uplifts at c 3.0% pa. However, the key opportunity lies in open market rent reviews, 69% of the total, which have shown relatively muted growth in recent years, but where upward pressure on land and building costs is an important input into the rent review process. Rent reviews are on a three-year revolving basis in the UK and the amount of rent added in any period is a function of the number of reviews and the uplift achieved. A significant number of rent reviews remained outstanding and under negotiation at end-FY21, representing £84.9m of passing rent, £2.1m lower than the estimated rental value (ERV), a significant upside potential.

**Pro forma<sup>2</sup> LTV of 43.3% at end-Q122 remains at the low end of PHP's 40–50% target.** This reflects group net debt of £1,217m, slightly up on end-FY21 (£1,200m) when the cost of debt was 2.9%. With 97% of debt fixed or hedged for an average of nine years PHP has significant protection against a further increase in interest rates.

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<sup>1</sup> Retail Price Index

<sup>2</sup> Based on FY21 valuations, adjusted for subsequent events.

**Exhibit 1: Financial summary**

	£m	2019	2020	2021	2022e	2023e	2024e
Year end 31 December (£m)							
<b>PROFIT &amp; LOSS</b>							
Revenue		115.7	131.2	136.7	141.1	144.9	150.9
Administrative expenses		(12.3)	(13.2)	(10.5)	(10.8)	(11.3)	(11.9)
EBITDA		103.4	118.0	126.2	130.3	133.6	139.0
Net result on property portfolio		49.8	51.4	110.5	53.9	70.8	75.6
Exceptional items related to corporate acquisition		(148.6)	0.0	(37.0)	0.0	0.0	0.0
Operating profit before financing costs		4.6	169.4	199.7	184.1	204.4	214.6
Finance income		1.4	1.2	0.8	0.6	2.0	2.0
Finance expense		(42.6)	(43.0)	(35.9)	(41.3)	(42.3)	(45.0)
Net finance expense		(41.2)	(41.8)	(35.1)	(40.6)	(40.3)	(43.0)
Net other income/expense		(33.6)	(15.2)	(23.0)	0.0	0.0	0.0
Profit Before Tax (norm)		(70.2)	112.4	141.6	143.5	164.0	171.6
Tax		(1.1)	(0.4)	(1.5)	0.0	0.0	0.0
Profit After Tax (FRS 3)		(71.3)	112.0	140.1	143.5	164.0	171.6
Adjusted for the following:							
Net gain/(loss) on revaluation		(48.4)	(51.3)	(110.2)	(53.9)	(70.8)	(75.6)
Profit on disposal		(1.4)	(0.1)	(0.3)	0.0	0.0	0.0
Fair value gain/(loss) on derivatives & convertible bond		33.6	15.2	(1.6)	0.0	0.0	0.0
Exceptional items related to corporate acquisition		138.4	0.0	8.0	0.0	0.0	0.0
Other adjustments		1.1	0.4	26.1	0.0	0.0	0.0
EPRA earnings		52.0	76.2	62.1	89.6	93.2	96.0
Costs/charges relating to acquisition of Nexus		10.2	0.0	29.0	0.0	0.0	0.0
Amortisation of fair value adjustment to acquired debt		(2.5)	(3.1)	(3.2)	(2.9)	(3.0)	(3.0)
MTM write off on early termination of bank debt		0.0	0.0	(4.7)	0.0		
Adjusted EPRA earnings		59.7	73.1	83.2	86.7	90.2	93.0
Period end number of shares (m)		1,216.3	1,315.6	1,332.9	1,333.3	1,333.3	1,333.3
Average Number of Shares Outstanding (m)		1,092.0	1,266.4	1,330.4	1,333.3	1,333.3	1,333.3
Fully diluted average number of shares outstanding (m)		1,138.5	1,368.4	1,434.9	1,438.7	1,438.7	1,438.7
Basic IFRS EPS (p)		(6.53)	8.8	10.5	10.8	12.3	12.9
Basic Adjusted EPRA EPS (p)		5.5	5.8	6.2	6.5	6.8	7.0
EPS - normalised fully diluted (p)		5.4	5.7	6.1	6.3	6.6	6.8
Dividend per share (p)		5.600	5.900	6.200	6.500	6.800	7.000
Dividend cover (Adj. EPRA earnings/dividends paid)		101%	100%	101%	100%	100%	100%
Adjusted EPRA NTA total return		8.0%	10.1%	8.9%	9.0%	10.0%	10.1%
EPRA cost ratio		12.0%	11.9%	9.3%	9.3%	9.4%	9.4%
<b>BALANCE SHEET</b>							
Non-current assets		2,413.6	2,576.1	2,801.4	2,951.4	3,157.6	3,379.8
Investment properties		2,413.1	2,576.1	2,795.9	2,945.9	3,152.1	3,374.3
Other non-current assets		0.5	0.0	5.5	5.5	5.5	5.5
Current Assets		159.8	121.0	51.7	38.6	35.8	41.8
Cash & equivalents		143.1	103.6	33.4	21.0	18.2	24.2
Other current assets		16.7	17.4	18.3	17.6	17.6	17.6
Current Liabilities		(66.0)	(68.1)	(70.5)	(68.3)	(68.3)	(68.3)
Current borrowing		(6.1)	(6.4)	(2.2)	0.0	0.0	0.0
Other current liabilities		(59.9)	(61.7)	(68.3)	(68.3)	(68.3)	(68.3)
Non-current liabilities		(1,278.9)	(1,214.6)	(1,282.7)	(1,364.6)	(1,494.2)	(1,643.8)
Non-current borrowings		(1,257.8)	(1,206.5)	(1,273.0)	(1,354.9)	(1,484.5)	(1,634.1)
Other non-current liabilities		(21.1)	(8.1)	(9.7)	(9.7)	(9.7)	(9.7)
Net Assets		1,228.5	1,414.4	1,499.9	1,557.1	1,630.9	1,709.5
Derivative interest rate swaps		13.0	0.1	(4.4)	(4.4)	(4.4)	(4.4)
Change in fair value of convertible bond		22.7	25.0	21.6	21.6	21.6	21.6
Other EPRA adjustments		48.6	45.8	38.8	35.9	32.9	29.9
Adjusted EPRA net tangible assets (NTA)		1,312.8	1,485.3	1,555.9	1,610.2	1,681.0	1,756.6
IFRS NAV per share (p)		101.0	107.5	112.5	116.8	122.3	128.2
Adjusted EPRA NTA per share (p)		107.9	112.9	116.7	120.8	126.1	131.7
<b>CASH FLOW</b>							
Operating Cash Flow		94.0	118.9	140.4	130.7	134.0	139.4
Net Interest & other financing charges		(52.9)	(65.9)	(46.6)	(40.9)	(40.7)	(43.4)
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals		(47.4)	(102.8)	(129.3)	(96.1)	(135.4)	(146.7)
Net proceeds from issue of shares		97.6	136.8	(0.1)	0.0	0.0	0.0
Debt drawn/(repaid)		110.5	(58.4)	82.8	80.0	130.0	150.0
Equity dividends paid (net of scrip)		(54.4)	(69.1)	(74.4)	(86.0)	(90.7)	(93.3)
Other cash movements and FX		(11.9)	1.6	(43.6)	(0.2)	0.0	(0.0)
Net change in cash		137.2	(39.5)	(70.2)	(12.5)	(2.8)	6.0
Opening cash & equivalents		5.9	143.1	103.6	33.4	20.9	18.1
Closing net cash & equivalents		143.1	103.6	33.4	20.9	18.1	24.1
Debt as per balance sheet		(1,263.9)	(1,212.9)	(1,275.2)	(1,354.9)	(1,484.5)	(1,634.1)
Convertible bond fair value adjustment		22.7	25.0	21.6	21.6	21.6	21.6
Unamortised borrowing costs		(14.6)	(13.8)	(13.7)	(11.1)	(8.5)	(5.9)
Acquired debt fair value a		45.4	42.4	34.4	31.5	28.5	25.5
Closing net debt/(cash)		(1,067.3)	(1,055.7)	(1,199.5)	(1,292.0)	(1,424.8)	(1,568.8)
Net LTV		44.2%	41.0%	42.9%	43.9%	45.2%	46.5%

Source: PHP historical data, Edison Investment Research forecasts

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