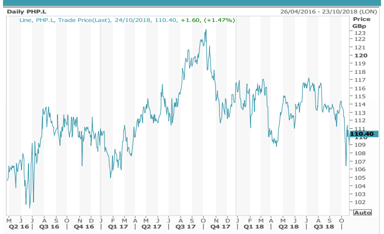
HARDMAN & CO.

29 October 2018

PRIMARY HEALTH PROPERTIES

Growing the footprint; optimising income and NAV

Real Estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PHP
Price (p)	109
12m High (p)	118
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	794
EV (£m)	1420
Market	Main, LSE

Description

Primary Health Properties (PHP) is a REIT acquiring and owning modern primary medical properties in the UK, and is expanding into the Republic of Ireland (RoI).

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

+44 20 7451 7050
www.phpgroup.co.uk

Key shareholders

Directors	2.5%
BlackRock	5.5%
Investec Wealth	4.9%
Charles Stanley	4.5%
Unicorn Asset Mgt.	4.2%
Troy	3.9%

Diary

Feb'19	Full-year results
Apr'19	AGM
Jul'19	Interim results

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PHP's dividend growth is set to accelerate. In addition, we see a number of drivers to NAV growth. PHP invests in Government-income-backed, long leases. Two years ago, PHP extended into the Republic of Ireland (RoI), and has invested €101m in assets in newly built primary medical centres in that jurisdiction. UK assets are attractive to investors seeking low-risk assets and covenants, with upward-only rents on long leases. Notwithstanding possible rising bond yield valuations, we believe PHP's UK assets will see an element of upward revaluation. The RoI assets have similar characteristics but trade off higher yields. We see an ongoing trend of a narrowing down of the RoI asset valuation discount vs. the UK.

- **Strategy:** PHP's UK assets are attractive, but this research focuses on RoI, where there is a stronger income yield and a good pipeline of assets to be acquired. RoI is still a relatively new market for modern centres, but as awareness grows, valuations should rise. Before then, PHP will have expanded its exposure further.

- **Further expansion in RoI:** On 5 September 2018, PHP acquired three modern, purpose-built primary healthcare centres for €38.6m. Since the first RoI acquisition, in 2016, ca.30% of PHP's total asset purchases have been in RoI, as PHP uses its expertise to expand, ahead of likely solid revaluations of the asset class.

- **Valuation:** The secure income REIT sector (and thus PHP) should be judged by i) dividend yield, ii) sustainable growth of DPS and iii) the underlying assets' attractions to future tenants. PHP's yield is in line, and we consider the assets to bring relatively superior attractions. Modest DPS growth is set to accelerate.

- **Risks:** Debt maturity has lengthened YoY (5.9 years' average), reducing refinance risk YoY, while also still lowering cost of debt. Were rent growth to remain subdued, DPS growth should remain at ca.3%. 2018 dividends, cash paid, are fully covered, but cover builds to over 100% under any macroeconomic scenario.

- **Investment summary:** PHP is in its 22nd year of stockmarket listing and its 22nd year of dividend rises. Investment, including the now fast-growing, higher-yielding market in RoI, added to deployment of equity and ongoing cost optimisation, all underpin good support for dividend growth for some years to come.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Income	67.4	72.5	78.0	84.0	91.0
Finance cost	-32.5	-31.6	-29.8	-27.9	-28.5
Declared profit	43.7	91.9	67.2	73.0	80.0
EPRA PBT (adj. pre-revaluation)	26.7	31.0	37.2	44.5	50.0
EPS reported (p)	7.8	15.3	9.6	9.4	10.0
EPRA EPS (fully-diluted) (p)	4.7	5.1	5.3	5.7	6.2
DPS (p)	5.12	5.25	5.40	5.55	5.70
Net debt	-663.2	-726.6	-709.0	-742.7	-837.8
Dividend yield	4.7%	4.8%	5.0%	5.1%	5.2%
Price/EPRA NAV	1.20	1.08	1.04	1.01	0.97
NAV (p)	83.5	94.7	100.2	103.8	108.1
EPRA NAV (p)	91.1	100.7	104.9	108.1	112.5

Source: Hardman & Co Research

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Delivering into a newer market: RoI

Three more RoI assets acquired

On 5 September 2018, PHP acquired three modern, purpose-built primary healthcare centres for €38.6m. These are the most recent examples of PHP's successful strategic move to source a significant proportion of acquisitions from RoI. Why? We believe their risk characteristics are indistinguishable from those in the UK, but net initial yields (NIY) are usefully higher. This also extends the 'pool' of potential assets from which PHP can select the best. Leases in the UK and the RoI are typically ca.25 years. All are upward-only rents, most linked to RoI CPI. The recent acquisition's remaining unexpired lease is 21 years. As is the norm in this market segment, the very large majority of rental income is secured against a government-backed healthcare tenant.

On the face of it, the UK is 90% government-backed income vs. 70%-75% for RoI

In fact, the RoI covenant is just as strong

In the UK, the government-backed portion of rent is ca.90% and, in the RoI, this stands at some 60%-75%. The 75% includes the element of GP income coming from government funded patients. Both figures are high, but, on the face of it, the RoI assets have lower governmental-sourced income. This is misleading. The balance is from GPs, pharmacies and other essential health services in modern centres that are pivotal to the community.

Both the UK and RoI authorities are investing into a modern primary care delivery network. Furthermore, both are addressing an existing estate that is typically not made up of purpose-built assets. Such older assets are ones where the physical constraints on the expansion of GPs' patient lists are high and the scope to co-locate other community health services (pharmacies, dental, physiotherapy and addiction or mental health services) is very low. PHP's modern assets enable all such efficiencies and growth to be maximised.

The past couple of years have seen ca.30% of PHP's purchases in RoI

6.0% of PHP's total assets are in RoI. This compares with zero at the start of 2016, and comes after a couple of years where ca.30% of PHP's purchases (and forward-funding – with no development risk) have been in RoI.

Investment conclusion and risks

RoI – yield and size attractions

The policy of broadening the investment portfolio into RoI has been well executed, and increases income returns as well as providing scope for some re-rating of asset valuations. The risk profile regarding the covenant is not materially different from that in the UK, but there is a ca.100 bp yield premium in valuations currently. We see this partially eroding. Lease structures' principal attributed – upward-only payments on long leases – are the same in the UK and RoI. RoI to date has seen CPI-related leases, which might appear more attractive to investors compared with (upward-only) third-party valuer-assessed increases.

RoI might see yields tighten, boosting values

Concerning PHP as a whole, the investment case revolves around the 22-year history of dividend rises and the secure prospects for more of the same. Dividend rises should accelerate, in part assisted by the higher RoI income yields. NAV per share should continue to rise, broadly in line with CPI, with the added benefit of financial gearing, plus an element of yield 'tightening' anticipated on the RoI assets (currently 6% of the total portfolio).

Debt costs falling, but there are also market-driven headwinds

PHP's risks primarily comprise funding costs, as debt costs are largely fixed, with the average term somewhat under six years. The current, incremental, cost of debt remains slightly below the average (falling) historical cost of debt, so further rises in market rates of interest would be at least partially mitigated by the maturity of historical, more expensive, debt. Dividend cover is 100% (cash terms) this year, but is rebuilding to a healthy premium from 2019 onwards.

Why PHP committed €101m to RoI

The Health Service Executive (HSE) in RoI has stated its plan to deliver 200 modern primary care centres throughout RoI

€101m has been invested by PHP in RoI primary care centres to date (since a start in 2016), with an active further pipeline. The Health Service Executive (HSE) in RoI has a stated plan to deliver 200 modern primary care centres nationally. Within this sizeable potential, PHP has a stated ambition to achieve an investment initially in excess of 10% of its total assets, a figure we would anticipate being achieved well within two years, and with further potential beyond that. PHP currently owns £1.5bn of assets.

This policy of investment into RoI will have a modest positive impact on PHP's EPS and will also modestly reduce its risk profile.

For PHP – earnings-accretive

- This will be earnings-accretive to PHP and, indeed, slightly more so than for UK primary care purchases, as NIYs are higher in RoI than the UK, while Euro funding costs are lower than Sterling. PHP illustrates the NIY as 6.0% in RoI currently, which compares with 4.9% (June 2018) for the portfolio as a whole (see page 5).

Widens the reach and hence the choices PHP has for asset deployment

- It expands the reach of PHP, beyond its pre-2016 strategy of newly developed and second-hand UK primary care centres.

A well-understood market by PHP

- Both the UK and RoI markets are driven by similar demographics and health and wellbeing factors, but RoI is further behind the UK in the quantum of modern assets. This stems, in part, from having been harder-hit by austerity, post 2008.

Equally strong covenant.....

- While only ca.60-75% of primary care asset income comes directly from the government (versus 90% in the UK), the balance is from an identical overarching dynamic, namely GPs, dentists, physiotherapists (etc), pharmacies and attached chains of coffee shops and refreshment centres. 67% (typically) derives directly from HSE, and broadly half of GP income comes from medical cards or GP visit card holders, where 100% treatment costs are paid to GPs by the government.

...and, importantly, large assets pivotal to local community

UK has 25% of assets of over £10m lot size; RoI has 80% of assets of over £10m lot size...

Each primary care centre tends to be as large as, or larger than, a typical large UK modern medical property owned by PHP. 7% (by number) and 25% by value of all PHP's assets have a capital value of over £10m. For the eight RoI assets, the figures are 37% and 80%, respectively. Larger properties would tend to be more essential to current and prospective delivery of all primary health services to their community, and hence they have stronger continuing use value. This is not of meaningful importance until the lease shortens and RoI leases average 22.4 years; nonetheless, we consider it supportive to NIY valuation levels.

....for example, Navan Road, Dublin

Navan Road primary care centre

Source: PHP presentation

Valuation benefit

Expect NIY gap between UK and RoI to shrink from ca.6% to 4.8%

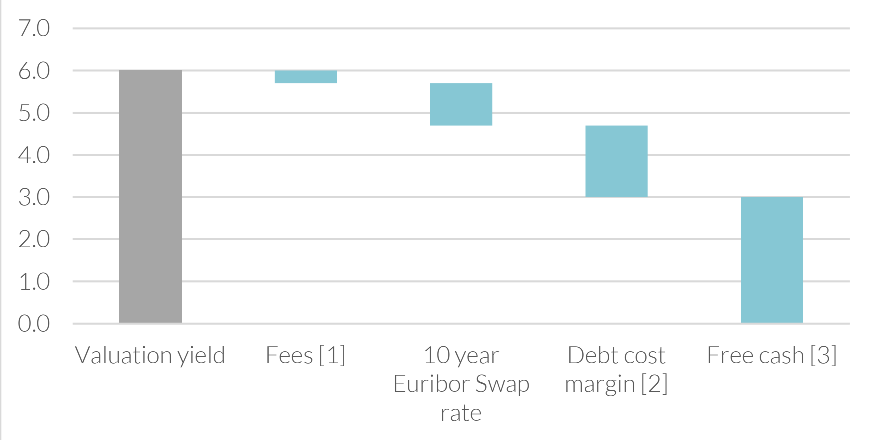
Going forward, for the reasons outlined above, we therefore see the NIY gap between the UK and RoI shrinking further, from the current ca.6.0% towards 4.9%, applicable to the portfolio as a whole.

Income benefit

The more notable rationale for investment is the current and prospective income and EPS benefit to PHP. We summarise these in the charts below.

RoI – stronger free cash…

RoI acquisitions: net PHP margin (%) over funding cost



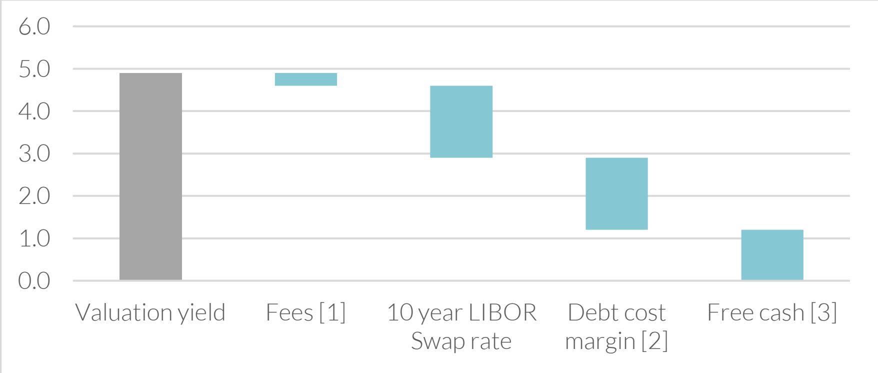
Source: PHP presentation
Note 1 This is on incremental assets purchased and excludes performance fee
Note 2 The PHP-specific margin on recent transactions and agreements
Note 3 This is based on recent historic data averages

Illustratively, an RoI acquisition typically returns 3.0% of the asset price as cash profit to PHP (chart above). This compares with a figure of 1.2% for the UK, chart below.

The RoI net income spread is typically 3.0% vs 1.2% typically in UK.

… UK free cash positive

UK acquisitions: net PHP margin (%) over funding cost



Source: PHP presentation
Footnotes: See Chart above

The current 'direction of travel' is for the valuation of both the UK and RoI assets to rise; hence the NIY is modestly falling. This does tend to have the effect of reducing cash returns on both assets, incrementally over time, but the percentage figure, as opposed to absolute terms, reduces faster in the UK. This is a mathematical function of the return being lower in the UK (1.2% in the illustration above) than RoI (3.0%). Note that, as a function of market moves, the NIY of the initial purchases in RoI was somewhat higher than the more recent figure. We are entirely comfortable in anticipating that the trend of a partial ongoing closing of the gap in NIY between the UK and RoI is logical and will continue. Nonetheless, we still anticipate a net income uplift (locked in for the length of the lease) continuing for the foreseeable future.

PHP's current position in RoI

The group owns eight assets

The pace of acquisition has quickened in the past nine months

Assets acquired in RoI

Location	Date acquired	Cost (€m)	Area (sqm)	Remaining lease (years)
Tipperary	October 2016	6.7	2400	23.1
Carrigaline	August 2017	7.3	3000	24.3
Mallow	February 2018	20.0	6500	20.4
Mountmellick	May 2018	5.8	1800	17.7
Celbridge	September 2018	13.0	3500	23.9
Navan Road	September 2018	12.2	3100	21.9
Newbridge	September 2018	13.4	4100	20.3
Bray (under construction)	Autumn 2019 [1]	22.3	4800	25.0

[1] PHP is investing into the forward-funding construction period as of now. Handover of completed and let assets is due in autumn 2019.

Source: PHP presentation

The PHP pipeline

Strong developer links

PHP does not explicitly quantify the pipeline with its developer partners; however, we would be disappointed to see a material slackening off from recent rates of asset acquisition. In the calendar year 2018 to date, €67m assets in RoI have been purchased, which is a significantly greater rate of expansion than we had estimated a year ago. While 2019 may not see quite such a rate of acquisition, which is almost as high a quantum as the total UK investment, we would be surprised if it were far lower.

The time-line from identification to delivery of a development is long, so gives visibility

The partners are all developers with a track record in this asset class. Land might be seen as a potential constraint, with prices recovering at least in Dublin and the surrounding areas. However, given the lags in the system, land prices now would affect completed delivery around 2021 at the earliest. In any case, a number of sites come from the HSE itself and a number have come from a planning brief allocating land to healthcare delivery needs. Initial rents may have to be raised to cater for the potentially higher land costs. It is to be noted that PHP's initial emphasis has been in and around Dublin or Cork for the majority of assets, to date. The demand – as in the UK – is spread nationally.

Rising costs should not impact PHP's pipeline for two to three years, but the HSE is committed to supporting development

Were costs to rise (principally land), PHP could broaden out geographically, and new rents on expensive locations would rise. Either way, PHP's expansion should not be stifled, and its initial acquisitions' valuations should rise.

Rising costs may therefore support the existing assets' valuations further

Nationwide drivers to a growing market are highly visible

Currently, the RoI market is small (so not fully understood), but it will expand significantly

Nationally – not the specific eight assets funded by PHP – 12 primary health centres were opened in 2018. 31 locations are stated by PHP as being under construction or development, at advanced planning or underway for design/planning in the market as a whole, with a further 44 at the early planning stage. Access to funding is vital for these to be delivered, and the RoI government welcomes private-sector input. The rents (and demand) for each centre are driven by demographics and the recognised desire of the HSE and citizens to see delivery in modern, multi-agency centres.

Growth in the pipeline for the next several years is visible through the lead times and the planning system. Like the UK, cross-party support is strongly publicly stated.

Not GDP-related, but some economics…

None of this is GDP-related. However, inasmuch as the trigger to the current HSE thinking was that economic growth enabled some easing of the most severe budget constraints, it is worth noting that GDP forecasts are for growth to remain in the 3% to 5% range in 2019 and 2020, notwithstanding the uncertainties globally and over the UK's withdrawal from the EU (Source: Goodbody). Goodbody forecasts a budget deficit of (only) 0.2% of GDP in 2019 and a small surplus in 2020. Government capital expenditure as a percentage of GDP/GNI (Goodbody forecasts), having been above Euro-area levels from 1998 to 2010, dipped below these levels until 2018. In 2019, this ratio is expected to increase from ca.3% to nearer 4%, rising slowly thereafter.

…and demographics

Furthermore, RoI population growth is forecast as the third-highest across the whole of the EU from 2014 to 2040 (source: Eurostat).

Some background: HSE's Plan and the funding of GP visits

The HSE's National Service Plan 2018, in its segment on Health and Social Care Delivery, Primary Care Services states: "The commissioning of primary care centres continues to be a key enabler for the effective and efficient delivery of PCT and network services….. The development of a new, modernised contract for the provision of GP services is key to developing a more comprehensive and accessible primary care service….. 3.7m people are registered for community services provided by GPs, pharmacists, dentists and optometrists and/or ophthalmologists. Of this, in excess of 2m people are eligible for a medical card or GP visit card."

Further background to the HSE's strategic vision of primary care delivery can be seen on the RoI Department of Health website:

https://health.gov.ie/blog/publications/future-health-a-strategic-framework-for-reform-of-the-health-service-2012-2015/

Delivery at care centre level

Some detail on the delivery of care

Growth in the RoI primary care facilities market is substantial, through the construction and commissioning of large centres. The HSE is the government's executive agency, which provides RoI's public health services in communities across the country. Other relevant government bodies, including TULSA, are involved in social care. The typical larger primary health centre will see at least as much non-GP primary health space and that which is taken by GPs. As to the GPs, many examples would be several practices co-locating to new accommodation, and also commercial chains taking the space allocated for GPs. These chains provide the essential and growing 'back-office' management of the somewhat more complex (than UK) administrative and charging background, and are subject to drivers that would include growth in patients for GPs and per practice. It is important to emphasise that the RoI delivery model is like the that of the UK, in that the GPs are the 'gateway' to virtually all the other services, bar dentistry.

PHP's ambition

Currently 6%, target at least 10%, likely greater

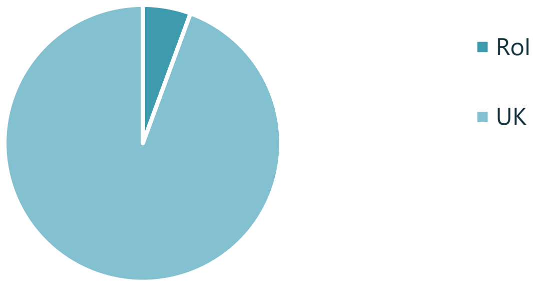
Within this sizeable potential, PHP has a stated ambition to achieve an investment initially in excess of 10% of its total assets.

PHP's acceleration since 2016 start

The early success (checking all the local nuances) has been followed by acceleration

PHP's total UK and RoI portfolio comprises 313 assets, with a gross value of almost £1.5bn and a contracted rent roll of over £77m. Within this, the gross value of the portfolio in RoI stands at €106m (total invested stands at €101m), from a first investment on 19 September 2016. Further substantial investment is anticipated. In 2017, Hardman & Co estimated an annual average €20m-€30m RoI investment for a number of years. This anticipated rate has been exceeded.

Current proportion of assets, by country

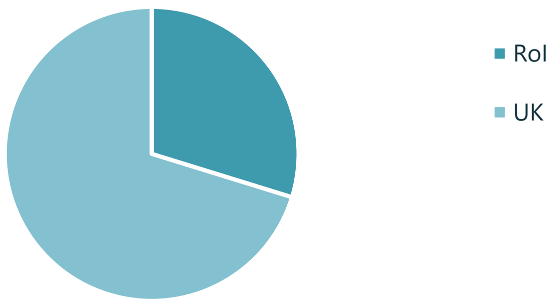


Source: PHP

On that date in September 2016, PHP completed its first acquisition in RoI, investing €6.7m. By December 2017, three RoI assets had been purchased – an investment totalling €34.0m – with the total €101m cumulative investment now by PHP.

In the period since 19 September 2016, the total PHP portfolio has grown by 19 assets, costing ca.£300m. Within that, just under 30% of growth has been in RoI, with the balance in the UK. See chart below.

Share of RoI within total asset purchases since first RoI purchase



Source: PHP data, Hardman calculations

The first…

On 19 September 2016, PHP completed its first acquisition in RoI. This centre comprises ca.2,800m^2, and is newly developed, fully let and rent-producing. Three quarters of the rent roll is contracted to the HSE for a 25-year lease term. The cost was €6.7m; Hardman & Co estimates that the NIY was well in excess of 6%.

…the second

The second RoI asset took six more months to secure – for €7.3m. At that stage, PHP was contracted to provide development funding for the construction of a new primary care centre in Carrigaline, of ca.2,900m^2 in size, with the physical opening on time and cost in 3Q'17. As with the UK, PHP provides forward funding to exact timing and physical specifications, and takes no development or letting risk. Eight months later,

.. the third, much larger

the third RoI acquisition was completed. The cost of €20m provided a lettable area of ca.6,500m^2, on a 25-year lease to HSE for 65% of the rent roll, with the remainder of the rent roll coming from four separate GP practices, which entered into long leases and with other complementary tenants, including a dentist, an optician and a physiotherapist. Having established its presence through three distinct and land-mark acquisitions, the pace of investment has quickened further.

The most recent acquisition and the future

Three at once

On 5 September 2018, PHP announced the acquisition of three modern, purpose-built primary care centres in RoI. PHP acquired the entire issued share capital of Jellia Holdings Limited, a company that owns primary care centres at Navan Road in Dublin, and in Newbridge and Celbridge, two commuter towns just outside Dublin, in County Kildare. The cost was €38.6m, the same as the value of the assets acquired.

All three properties are fully let. The HSE, the Irish government's executive agency and other government bodies, including TULSA and the Kildare Wicklow Education Training Board, account for ca.63% of the total rent roll at the properties, which have a combined unexpired lease term of approximately 21 years. The balance is from Centric Health, a leading UK and RoI primary healthcare provider, and from pharmacies.

Structures

PHP's corporate structure

REIT – mirror structure

The vehicle for the acquisition of the assets in RoI is an in-house ICAV, an RoI collective investment vehicle wholly owned by PHP. There is an overhead cost to this, which is broadly fixed, and not enlarged by the quantum of assets held or being developed. The benefits of this are that the structure closely mirrors the UK REIT regime and income is only taxable when distributed to shareholders.

Lease structures

Leases require specialist expertise

Under the typical HSE lease, the landlord is responsible for maintenance but receives a fixed service level agreement (CPI-inflated) to pay for day-to-day expenditure and also provide a sinking fund. GPs, pharmacies and other tenants pay their share of the maintenance and communal expenses through the service charge. Given that most of the RoI buildings are brand-new and that PHP, as a large landlord, can benefit from economies of scale, day-to-day maintenance is covered about 160% (plus) by the fixed service level agreement – so a healthy sinking fund is being built up.

The typical HSE lease contains an obligation on the landlord to ensure that a minimum number of GPs will be based in the building, varying by size of building. Were this to happen (which is not anticipated), that the landlord has good connections with GP service provider organisations and can source locum GPs, if required.

It is Hardman & Co's view that such lease structures, while entirely reasonable for the provision of primary care in the optimal way, through centres acting as the hub for the community, result in advantages to landlords who are specialists in this type of asset and command a portfolio of a significant size.

Certain assets are purchased through forward funding of developments, and all such assets are fully pre-let, with no risk accruing to PHP.

Other recent topics

UK asset acquisition

Key health worker accommodation in Northumbria

19 September saw PHP acquire a modern keyworker accommodation unit for £22.8m in Northumbria. The asset is located next to Wansbeck General Hospital and is let to Northumbria Healthcare NHS Foundation Trust. The unexpired lease term is 29 years, and the Trust provides a strong covenant.

This acquisition is within our model's estimated £100m real estate purchase anticipated for 2018, so we are not changing our estimates (for revenue, costs or debt). It is notable in the following ways:

A good 3% p.a. uplift on the long lease

- It is the first acquisition in a sector that is outside the primary healthcare assets – surgeries and the associated pharmacies. This asset is likely to prove to be a one-off purchase, selected due to the attraction of the strong government covenant, 29 year WAULT, 3% fixed annual rent uplifts and a good lot size. We do not necessarily expect any more acquisitions in key worker accommodation in the future.
- The acquisition is also notable in that it expands PHP's fixed uplift long leases. The lease's rent is subject to a 3% p.a. fixed rental uplift. It should be noted that, for accounting purposes, the smoothed average rent through the total lease length is taken through the income line in PHP's accounts, with the cash, of course, rising steadily, at 3% p.a.

4.25% Convertible Bond 2019 – conversion terms

PHP has a Convertible maturing in May 2019

On 12 October 2018, PHP announced that the exchange price for new Ordinary shares to be issued in exchange for the Preference shares had been adjusted from 97.5p (the price for recent conversions) to 96.16p per Ordinary. This is on the basis of the original Prospectus and is triggered by a certain cumulative quantum of Ordinary dividends paid since the issue. While a further change would be triggered by a certain rise in future dividends, the end date of 2019, in reality, means that all future conversion will be at the new 96.16p level.

There are currently £53,400,000 nominal of Convertible Bonds outstanding. At the old level, this would have converted to 54.77m new Ordinary and, at the new ratio, to 55.53m, and causes almost exactly a 0.1% further dilution to the fully-diluted amount post notional full conversion as a function of the 0.76m additional new shares on (assumed) full conversion.

Financial analysis

Revenue account							
Year-end December (£m)	2014	2015	2016	2017	2018E	2019E	2020E
Rental income total received	60.0	63.1	67.4	72.5	78.0	84.0	91.0
Finance lease income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	60.0	63.1	67.4	72.5	78.0	84.0	91.0
Direct property expenses	0.7	0.9	0.9	1.2	1.3	1.4	1.5
Administrative expenses	6.8	6.8	7.3	8.7	9.7	10.2	11.0
Total expenses	7.5	7.7	8.2	9.9	11.0	11.6	12.5
Operating profit	52.5	55.4	59.2	62.6	67.0	72.4	78.5
Operating margin	87.5%	87.8%	87.8%	86.3%	85.9%	86.1%	86.3%
Developer loan interest, other income	1.0	0.7	0.5	0.3	0.2	0.1	0.1
Swap interest paid	-7.6	-6.0	-5.1	-3.4	-2.1	-0.7	-0.7
Bank, bond loan interest, fees	-27.7	-28.4	-27.9	-28.5	-27.9	-27.3	-27.9
Break fees (excluded from adjusted EPS figure)	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net finance costs	-35.5	-33.7	-32.5	-31.6	-29.8	-27.9	-28.5
EPRA pre-tax profit	18.2	21.7	26.7	31.0	37.2	44.5	50.0
Net revaluation on portfolio	29.2	39.8	20.7	64.5	30.0	28.5	30.0
Fair value gain on derivatives	-2.5	1.0	-2.2	-0.3	0.0	0.0	0.0
Fair value on Convertible	-4.5	-6.5	-1.6	-3.3	0.0	0.0	0.0
Non-recurring expenses	-2.4	0.0	0.0	0.0	0.0	0.0	0.0
Reported pre-tax profit	36.9	56.0	43.7	91.9	67.2	73.0	80.0
Tax charge	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPRA EPS (p), as above and excluding Convertible	4.10	4.87	4.77	5.17	5.32	5.74	6.22
EPRA EPS (p) (diluted), and excludes all revaluation	4.10	4.77	4.69	5.07	5.25	5.73	6.22
EPRA EPS (p) (diluted) pre-performance fee	4.10	4.77	4.69	5.15	5.42	5.89	6.37
Reported basic EPS (p)	8.30	12.57	7.78	15.30	9.60	9.43	9.96
Dividend per share (p)	4.875	5.000	5.125	5.250	5.400	5.550	5.700
DPS cover, x	84%	95%	91%	97%	97%	103%	109%
DPS cover, excluding PIF, x	84%	95%	91%	98%	100%	106%	112%
Shares in issue (m), average	444.4	445.6	560.1	600.7	699.7	774.2	804.2

Source: PHP Report accounts, Estimates: Hardman & Co Research

Note: our financial estimates remain unchanged compared with our post-results update of August 2018, bar the *de-minimis* increase in shares in issue from the 2019 Convertible (see page 11). The change to the shares in issue stemming from the varied terms for the Convertible (May 2019 expiry) are *de-minimis* as regards the EPS calculation.

Note: We calculate cash cover 2018E at 100% for the dividend.

Balance sheet							
@ 31 December (£m)	2014	2015	2016	2017	2018E	2019E	2020E
Investment properties, start of period	941.5	1026.2	1100.6	1220.1	1361.9	1491.9	1620.4
Currency translation effect	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions to portfolio	55.5	34.6	98.8	77.3	100.0	100.0	100.0
Revaluations	29.2	39.8	20.7	64.5	30.0	28.5	30.0
Non-current assets							
Investment properties, end of period	1026.2	1100.6	1220.1	1361.9	1491.9	1620.4	1750.4
Interest rate swaps	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total: non-current assets	1026.2	1100.6	1220.1	1361.9	1491.9	1620.4	1750.4
Current assets							
Receivables	5.7	4.1	3.3	6.4	3.0	4.4	4.4
Other	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Net cash + short-term investments	12.1	2.9	5.0	3.8	21.3	12.3	20.0
Sub-total: current assets	17.8	7.0	8.3	10.5	24.3	16.8	24.4
Total assets	1044.0	1107.6	1228.4	1372.4	1516.2	1637.2	1774.8
Current liabilities							
Deferred rental income	12.3	13.2	14.1	15.0	15.0	15.0	15.0
Trade and other payables	14.2	16.1	13.6	15.4	16.0	16.0	16.0
Term loans	0.7	0.9	0.8	0.8	1.0	1.0	1.0
Interest rate swaps	5.8	4.7	3.8	2.7	2.7	2.7	2.7
Sub-total: current liabilities	33.0	34.9	32.3	33.9	34.7	34.7	34.7
Non-current liabilities							
Term loan over 1 year, bond	666.6	696.7	667.4	729.6	729.4	754.3	856.8
Interest rate swaps	35.2	30.6	29.5	22.1	20.0	20.0	20.0
Sub-total: non-current liabilities	701.8	727.3	696.9	751.7	749.4	774.3	876.8
Total liabilities	734.8	762.2	729.2	785.6	784.1	809.0	911.5
Shareholders' funds	309.2	345.4	499.2	586.8	732.1	828.5	863.4
EPRA shareholders' funds	354.2	391.6	545.0	623.6	766.8	863.2	898.1
Shares in Issue at period-end, No. (m)	445.1	446.3	598.2	619.4	731.0	798.5	798.5
NAV per share (p)	69.5	77.4	83.5	94.7	100.2	103.8	108.1
EPRA NAV per share (p)	79.6	87.5	91.1	100.7	104.9	108.1	112.5
Net debt	655.2	694.7	663.2	726.6	709.1	742.7	837.8
Loan to value ratio	62.8%	62.7%	53.7%	52.9%	46.8%	45.4%	47.2%

Source: PHP Report accounts, Estimates: Hardman & Co Research

Cashflow

Year-end December (£m)	2014	2015	2016	2017	2018E	2019E	2020E
Operating activities							
Profit before taxation (adjusted for fair value)	38.2	49.9	43.0	91.9	67.2	73.0	80.0
Adjustments for:							
Net valuation changes on investment property	-29.2	-39.8	-20.7	-64.5	-30.0	-28.5	-30.0
Early repayment fees and bond issue	3.6	0.0	0.0	0.0	0.0	0.0	0.0
Finance costs payable	34.3	33.7	32.5	32.2	29.8	27.9	28.5
Sub-total	46.9	43.8	54.8	59.6	67.0	72.4	78.5
Net (post-finance) cash inflow from operating activities	9.0	11.2	8.3	22.6	37.1	44.4	49.9
Investing activities							
Additions to investment assets	-54.5	-29.5	-97.4	-75.4	-100.0	-100.0	-100.0
Net cashflow operating and investing	-45.5	-18.3	-89.1	-52.8	-62.9	-55.6	-50.1
Financing activities							
Net proceeds from issue of share capital/conversion	0.0	-0.1	145.2	19.3	114.0	63.2	0.0
Dividends paid	-20.7	-21.1	-24.7	-29.8	-33.6	-41.2	-45.0
Net cashflow (change in debt)	-66.2	-39.5	31.4	-63.3	17.5	-33.6	-95.1
Net proceeds of long-term borrowings	69.0	30.3	-29.3	62.1	0.0	25.0	98.0
Net cash inflow from financing activities	48.3	9.1	91.2	51.6	80.4	47.0	53.0
Net debt	655.2	694.7	663.3	726.6	709.1	742.7	837.8
Increase in cash and cash equivalents	1.6	-9.4	2.1	-1.2	17.5	-8.6	2.9
Opening cash and cash equivalents	9.3	12.1	2.9	5.0	3.8	21.3	12.6
Closing cash and cash equivalents	12.1	2.9	5.0	3.8	21.3	12.6	15.5

Source: PHP Report accounts, Estimates: Hardman & Co Research

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com