

Target Healthcare REIT

NAV update

Portfolio growth

Target Healthcare REIT (Target) continues to approach full investment, having completed the acquisitions of four care homes in the quarter to 31 March and one more in April. Portfolio value stood at £274.6m at the quarter-end (31 December: £253.1m). The Q217 dividend was the main cause of a slight decrease in EPRA NAV per share to 101.5p (31 December: 101.8p); we expect full dividend cover to be achieved in FY18 as the company becomes fully invested. The secular trends of an ageing population and a persistent lack of modern care homes create a significant opportunity for further investment to underpin the attractive dividend yield.

Year end	Revenue (£m)	EPRA EPS* (p)	EPRA NAV/share (p)	Price/EPRA NAV/share (x)	DPS (p)	Yield (%)
06/15	12.7	5.71	97.9	1.18	6.12	5.3
06/16	16.3	4.56	100.6	1.15	6.18	5.3
06/17e	22.6	4.75	100.7	1.15	6.28	5.4
06/18e	26.6	6.34	102.3	1.13	6.34	5.5

Note: *EPRA EPS excludes revaluation gains and movements in the fair value of financial derivatives and debt swap contracts.

Asset and income growth

Of the 8.5% increase in portfolio value, 50bp was due to growth of the like-for-like portfolio, driven by rent uplifts and some yield compression. The remainder (c £20.2m) was attributable to the acquisitions of two care homes in Dorset let for 35 years to existing tenant Care Concern, and two others, in Nottinghamshire and Essex, let to the group's 16th tenant, Oakdale, and Care Concern. Diversification of income continued in April with the acquisition for £6.1m of a home in Dover, let for 35 years to Athena Healthcare. Before that acquisition, the portfolio had passing rent of £19.8m (net initial yield of 6.75%) and an average term of 29.6 years.

Outlook

Target aims to have LTV of c 20% (31 March: 10.9%), it currently has £20m of debt available for investment and is in the late stages of discussions with a new provider to obtain further funding. Interest rate swaps mean that the cost of existing debt will be 2.36% to June 2019 and 2.25% from then until September 2021. Target reports that it has several investment opportunities under review and, as noted above, the structural drivers underlying its chosen market are likely to keep the pipeline full. We continue to expect that Target will achieve full investment in the current financial year (ending 30 June) and that the FY18 dividend will be 100% covered as a result.

Valuation: Attractive long-term income

Target has the longest leases in its sector, inexpensive debt, low LTV and a prospective yield of 5.4% (FTSE EPRA NAREIT index 3.4%). We expect its growing portfolio of income streams to cover the attractive dividend fully in FY18, and Target's shares have performed well in recent weeks as it approaches full investment. The 14% premium to the last reported EPRA NAV may continue to converge with other long-lease healthcare property investors (averaging c 21%) as that process continues.

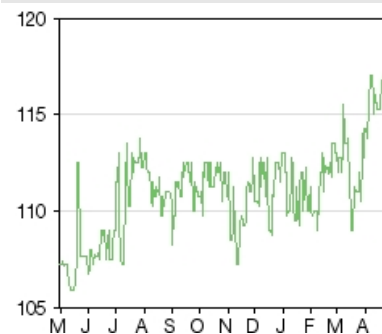
Real estate

28 April 2017

Price **115.75p**
Market cap **£292m**

Net cash (£m) at 31 December 2016	6.4
Shares in issue	252.2m
Free float	90%
Code	THRL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.8	5.2	6.9
Rel (local)	4.6	3.1	(6.8)
52-week high/low	117.0p	105.9p	

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

Trading update	August 2017
Full year results	September 2017

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Exhibit 1: Financial summary

Year end 30 June	2014	2015	2016	2017e	2018e	2019e
INCOME STATEMENT						
£000s						
Rent revenue	3,817	9,998	12,677	18,054	22,456	23,267
Movement in lease incentive or rent review	1,547	3,760	4,136	5,143	5,446	5,446
Rental income	5,364	13,658	16,813	23,197	27,902	28,713
Other income	0	66	61	195	0	0
Total revenue	5,364	13,724	16,874	23,392	27,902	28,713
Gains/(losses) on revaluation	(2,233)	(839)	425	2,181	(134)	989
Cost of corporate acquisitions	0	(174)	(998)	(3,006)	(1,212)	0
Total income	3,131	12,711	16,301	22,566	26,556	29,701
Management fee	(648)	(1,524)	(2,654)	(3,447)	(3,093)	(3,122)
Other expenses	(780)	(880)	(992)	(1,434)	(1,925)	(1,981)
Total expenditure	(1,428)	(2,404)	(3,646)	(4,881)	(5,018)	(5,103)
Profit before finance and tax	1,703	10,307	12,655	17,685	21,538	24,598
Net finance cost	190	(716)	(929)	(1,075)	(1,461)	(1,460)
Profit before taxation	1,893	9,591	11,726	16,610	20,076	23,138
Tax	(4)	(39)	(24)	(533)	0	0
Profit for the year	1,889	9,552	11,702	16,077	20,076	23,138
Movement in valuation of interest rate swap	0	0	(316)	223	0	0
Total comprehensive income for the year	1,889	9,552	11,386	16,300	20,076	23,138
Average number of shares in issue	105,231,661	119,160,560	171,734,587	252,180,851	252,180,851	252,180,851
IFRS earnings	1,889	9,552	11,386	16,300	20,076	23,138
Adjusted for rent arising from recognising guaranteed rent review uplifts + lease incentives	(1,547)	(3,760)	(4,136)	(5,143)	(5,446)	(5,446)
Adjusted for valuation changes	2,233	839	(425)	(2,181)	134	(989)
Adjusted for corporate acquisitions	0	174	998	3,006	1,212	0
EPRA earnings	2,575	6,805	7,823	11,983	15,977	16,703
Adjusted for performance fee	150	466	871	745	800	800
Group adjusted EPRA earnings	2,725	7,271	8,694	12,728	16,777	17,503
IFRS EPS (p)	1.80	8.02	6.63	6.46	7.96	9.18
EPRA EPS (p)	2.45	5.71	4.56	4.75	6.34	6.62
Adjusted EPS (p)	2.59	6.10	5.06	5.05	6.65	6.94
Dividend per share (declared)	6.12	6.12	6.18	6.28	6.34	6.34
BALANCE SHEET						
Investment properties	81,422	138,164	200,720	280,240	300,905	301,894
Trade and other receivables	0	2,530	3,742	3,763	3,763	3,763
Non-current assets	81,422	140,694	204,462	284,003	304,668	305,657
Trade and other receivables	6,524	6,457	13,222	16,474	16,474	16,474
Cash and equivalents	17,125	29,159	65,107	11,941	401	6,562
Current assets	23,649	35,616	78,329	28,415	16,875	23,036
Total assets	105,071	176,310	282,791	312,418	321,544	328,694
Bank loan	(11,764)	(30,865)	(20,449)	(48,256)	(53,256)	(53,256)
Interest rate swap	0	0	(316)	(93)	(93)	(93)
Trade and other payables	0	(2,530)	(3,742)	(3,763)	(3,763)	(3,763)
Non-current liabilities	(11,764)	(33,395)	(24,507)	(52,112)	(57,112)	(57,112)
Trade and other payables	(3,089)	(3,623)	(5,002)	(6,497)	(6,497)	(6,497)
Current Liabilities	(3,089)	(3,623)	(5,002)	(6,497)	(6,497)	(6,497)
Total liabilities	(14,853)	(37,018)	(29,509)	(58,609)	(63,609)	(63,609)
Net assets	90,218	139,292	253,282	253,809	257,935	265,085
Period end shares	95,221,629	142,298,226	252,180,851	252,180,851	252,180,851	252,180,851
NAV per ordinary share	94.7	97.9	100.4	100.6	102.3	105.1
Adjusted for interest rate swap	0	0	0	0	0	0
EPRA NAV per share	94.7	97.9	100.6	100.7	102.3	105.2
CASH FLOW						
Profit before tax	1,893	9,591	11,726	16,610	20,076	23,138
Adjusted for						
Interest receivable	(201)	(99)	(173)	(138)	(80)	(80)
Interest payable	11	815	1,102	1,213	1,541	1,540
Revaluation gains on property portfolio	686	(2,921)	(4,787)	(6,201)	(666)	(989)
(Increase)/decrease in trade and other receivables	(558)	(308)	(233)	(931)	0	0
Increase/(decrease) in trade and other payables	1,341	1,003	1,271	19	0	0
Total working capital adjustments	1,279	(1,510)	(2,820)	(6,037)	796	471
Interest paid	0	(613)	(854)	(1,002)	(1,541)	(1,540)
Interest received	161	99	173	138	80	80
Tax paid	0	(47)	(164)	(25)	0	0
Total other adjustments	161	(561)	(845)	(889)	(1,461)	(1,460)
Net cash flow from operating activities	3,333	7,520	8,061	9,684	19,411	22,149
Purchase of investment properties	(51,894)	(51,736)	(34,833)	(50,149)	(20,000)	0
Acquisition of subsidiaries	0	(5,845)	(27,091)	(27,932)	(1,212)	0
Net cash flow from investing activities	(51,894)	(57,581)	(61,924)	(78,081)	(21,212)	0
Issue of ordinary share capital	45,450	47,802	100,279	0	0	0
Expenses of issue	(930)	(1,158)	(2,778)	0	0	0
Sale of shares from treasury	0	0	14,799	0	0	0
(Repayment)/drawdown of bank loan	11,946	19,225	(10,638)	28,000	5,000	0
(Grant)/repayment of development loan	(3,300)	3,300	(2,170)	0	0	0
Dividends paid	(4,364)	(7,074)	(9,681)	(15,514)	(15,950)	(15,988)
Net cash flow from financing activities	48,802	62,095	89,811	12,486	(10,950)	(15,988)
Net change in cash and equivalents	241	12,034	35,948	(55,912)	(12,752)	6,161
Opening cash and equivalents	16,884	17,125	29,159	65,107	9,195	(3,557)
Closing cash and equivalents	17,125	29,159	65,107	9,195	(3,557)	2,604
Net debt	(17,125)	(17,395)	(44,658)	36,315	52,855	46,694

Source: Company data, Edison Investment Research

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