

Target Healthcare REIT Limited (THRL:LN)

Quarterly Investor Report: July 2017 (figures as at and for quarter ended 30 June 2017)

Quick facts

Overview

Launch Date	March 2013
ISIN	JE00B95CGW71
Registered number	112287
Expected quarterly dividend	Feb/May/Aug/Nov
Financial year end	30 June
Currency	Sterling
Website	www.targethealthcarereit.co.uk

Ordinary Share Class

(26/07/17)

Shares in issue	252,180,851
Share price	118.0 pence
Market cap	£298 million
Share price premium to EPRA NAV	16.0%

Key ratios and financials

(30/06/17)

Investment properties	£282.0 million
Drawn debt	£40 million
EPRA NAV	£256.9 million
EPRA NAV per share	101.9 pence
EPRA NAV growth	0.4%
Quarterly EPRA earnings per share*	1.46 pence
Quarterly dividend per share	1.57 pence
Dividend yield (26/07/17)	5.3%
LTV	14.2%
Management fee rate	0.9% of NAV
Performance fee	10% of portfolio outperformance of Index; capped at 0.35% of NAV; rolling, cumulative 3-year period; subject to claw-back.
WAULT	29.5 years

Summary Balance Sheet

	Jun-17 £m	Mar-17 £m
Investment properties	282.0	274.6
Cash	10.4	11.6
Net current assets / (liabilities)	4.5	(0.1)
Bank loan	(40.0)	(30.0)
Net assets	256.9	256.1
EPRA NAV per share(pence)	101.9	101.5

Ignores the effect of fixed/guaranteed rent reviews.

Group at a glance

Overview

THRL aims to provide shareholders with an attractive level of income with the potential for moderate capital and income growth through investing in best-in-class care home assets with robust financial characteristics. The Group acquires modern, purpose-built properties fully equipped with ensuite wet rooms, operated by a diverse group of tenants leased at sustainable rental levels and rental covers over the long-term. The Group focuses on locations underpinned by favourable dynamics (population demographics and social grade, supply / demand) and seeks to support high quality tenants who demonstrate excellent operational capabilities and a strong care ethos.

Recent news

The group acquired a 79-bed care home in Dover, Kent in April 2017 for a total consideration of £6.1 million including costs. The home was leased back to Athena Healthcare who developed the property, on a 35-year lease. Subsequent to 30 June 2017, the Group acquired a care home in Melton Mowbray and a development site for a pre-let home in Birkdale, Merseyside, combined value of £16.6 million including costs.

Pipeline

The Investment Manager is considering a number of near-term investment opportunities.

Performance

On a like-for-like basis, the portfolio value increased by 0.6% over the quarter. The increase reflects an element of yield compression across individual assets as the underlying trading performance of the homes mature as well as uplifts from ongoing embedded rent reviews.

Healthcare investment market

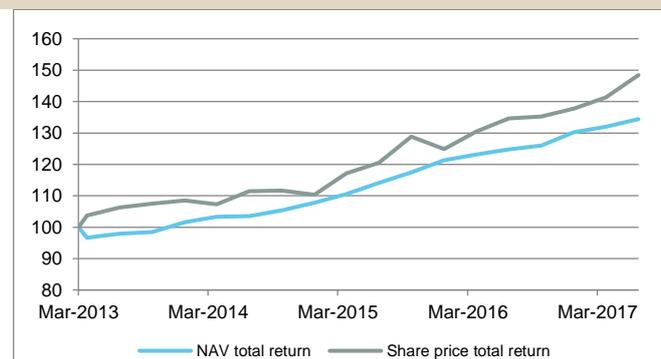
Care Home Professional reports that HC-One has agreed a deal to acquire a portfolio of BUPA care homes which would see HC-One become the largest care operator in the UK. Four Seasons recently announced a profit before interest of £34m for the year to 31 December 2016 (FY15: £263m loss). Whilst this is a positive result, the Group still needs to deal with its long-term debt and capital structure problems.

We continue to see very aggressive yields at the prime end of the market, in particular on properties let to not-for-profit operators.

Healthcare sector

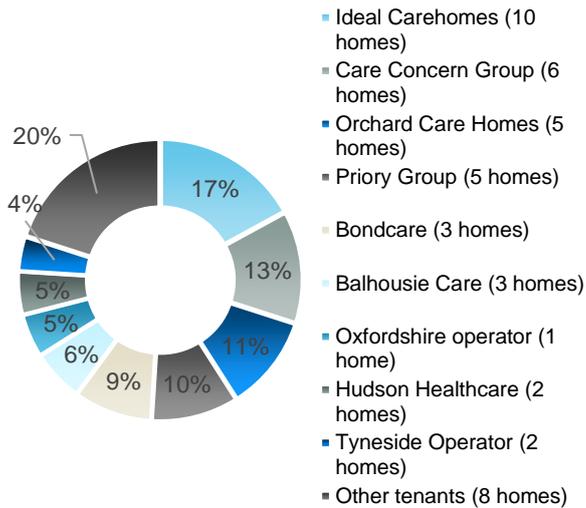
In the recent election campaign, a lack of policy cohesion was evident with the Conservative party's well-intentioned but controversial social care shake up being labelled a 'dementia tax'. The party subsequently u-turned on the policy following the reception by the media and public. In addition to funding concerns, care providers continue to face staffing and regulatory challenges, with the recruitment of nurses being a particular issue. While worrying claims are being made of a potential collapse of EU nurse recruitment due to Brexit worries, the sector has historically risen well to such recruitment challenges, finding new and innovative staffing and/or operational solutions to deliver the required service. Meanwhile, we continue to find that well managed operators with a focus on staff training, retention and care quality are performing well, and believe they will continue to do so despite the challenges, particularly where they also have some control over their fees.

Performance – NAV and share price total return



Portfolio summary

Income by operator



Notes: income % calculated by reference to passing rents as at 30 June 2017

Geographical spread of portfolio by value



Ten largest investments by income

Asset	Acquired	Location	Operator
Oxfordshire Home	February 2016	South East	Oxfordshire Operator
Bromford Lane Care Centre	June 2014	West Midlands	Bondcare Group
Barnes Lodge Care Home	October 2016	South East	Abbeyfield Kent Society
Beaumont Manor	March 2017	South East	Care Concern Group
Hastings Court	December 2014	South East	Oakland Primecare
Whittington House	June 2016	South West	Caring Homes Group
St. Helen's Hall and Lodge	October 2013	North West	Orchard Care Homes Group
Sandiacre Court Care Home	August 2016	East Midlands	Hudson Healthcare
Summerfield House	May 2016	Yorkshire & The Humber	Bondcare Group
The Ashton Care Home	July 2014	East Midlands	Care Concern Group

Directors

Malcom Naish (Chairman)
 Professor June Andrews
 Gordon Coull
 Thomas J Hutchison III
 Hilary Jones
 Ian Webster

Investment Manager

Target Advisers LLP
 Kenneth MacKenzie
 +44 (0) 1786 845 912
 kenneth@targetadvisers.co.uk

Advisers

Administrator Maitland Administration Services (Scotland) Limited
 Depository Augentius Depository Group Ltd
 Broker Stifel Nicolaus Europe Limited
 UK Legal Dickson Minto W.S.
 Auditors Ernst & Young LLP

* Excluding the effects of accrual for potential performance fee for the year to 31 December 2017.

This Report is intended solely for the information of the person to whom it is provided by the Group, the Investment Manager or the Administrator.

This Report is not intended as an offer or solicitation for the purchase of shares in the Group and should not be relied on by any person for the purpose of accounting, legal or tax advice or for making an investment decision. The payment of dividends and the repayment of capital are not guaranteed by the Group. Any forecast, projection or target is indicative only and not guaranteed in any way, and any opinions expressed in this Report are not statements of fact and are subject to change, and neither the Group nor the Investment Manager is under any obligation to update such opinions. Past performance is not a reliable indicator of future performance, and investors may not get back the original amount invested. Unless otherwise stated, the sources for all information contained in this report are the Investment Manager and the Administrator. Information contained in this Report is believed to be accurate at the date of publication, but none of the Group, the Investment Manager and the Administrator gives any representation or warranty as to the Report's accuracy or completeness. This Report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. None of the Group, the Investment Manager and the Administrator accepts any liability whatsoever for any loss (whether direct or indirect) arising from any use of this Report or its contents. **Target Healthcare REIT Limited, registered in Jersey (Registered Number: 112287). Registered Office: Ordnance House, 31 Pier Road, St Helier, Jersey, JE4 8PW. Regulated by the Jersey Financial Services Commission.**