

Target Healthcare REIT Limited (THRL:LN)

Quarterly Investor Report: October 2018 (figures as at and for quarter ended 30 September 2018)

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

Shares in issue	339,217,889
Share price	110.50 pence
Market cap	£374.8 million
Share price premium to EPRA NAV	4.1%

Key ratios and financials

Investment properties	£403.7 million
Drawn debt	£66.0 million
EPRA NAV	£359.8 million
EPRA NAV per share	106.1 pence
EPRA NAV growth	0.4%
Quarterly EPRA earnings per share	1.30 pence
Quarterly dividend per share	1.64 pence
Dividend yield (25/10/18)	6.0%
LTV*	16.3%
Management fee rate	1.05% up to £500m NAV 0.95% of £500m-700m NAV 0.85% of £750m-£1,000m NAV 0.75% of £1,000m-1,500m NAV 0.65% of £1,500m+ NAV
WAULT	28.25 years

*calculated as total gross debt as a proportion of gross property value exc. cash

Summary Balance Sheet

	Sep-18 £m	Jun-18 £m
Investment properties**	403.7	385.5
Cash	24.0	41.4
Net current assets / (liabilities)	(1.9)	(2.4)
Bank loan	(66.0)	(66.0)
Net assets	359.8	358.5

EPRA NAV per share (pence) 106.1 105.7

**Ignores the effect of fixed/guaranteed rent reviews.

Group at a glance

Overview

THRL provides shareholders with an attractive level of income with the potential for capital and income growth through investing in appropriate, best-in-class care home assets, with robust financial characteristics. The Group acquires modern, purpose-built properties fully equipped with en-suite 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 good quality tenants who demonstrate sound operational capabilities and a diligent care ethos.

Recent news

The Group acquired a care home in Doncaster, let to Orchard Carehomes, plus two development sites in Lancashire and West Yorkshire for a total consideration of £31.0m. The two development sites have been acquired on the premise of pre-let agreements with Athena Healthcare and Ideal Carehomes; both on 35 year FRI leases. In addition, the Group committed to purchase a care home in Powys upon practical completion, which is pre-let to Caresolve Operations Limited.

Pipeline

After accounting for pre-existing commitments the Company has £18 million of uncommitted capital to deploy and has announced an equity placing targeting proceeds of approximately £40 million. The Group has £79 million of opportunities in advanced due diligence expected to complete during 2018. This includes £51 million of imminent acquisitions which it expects to commit to by the end of November 2018.

Performance

The portfolio value increased by 4.7% over the quarter, with the like-for-like value up 1.1% largely through a combination of rental uplifts and yield shift. The new acquisitions prior to the quarter end (detailed above), plus further capital deployed for development projects accounts for the remainder of the value increase.

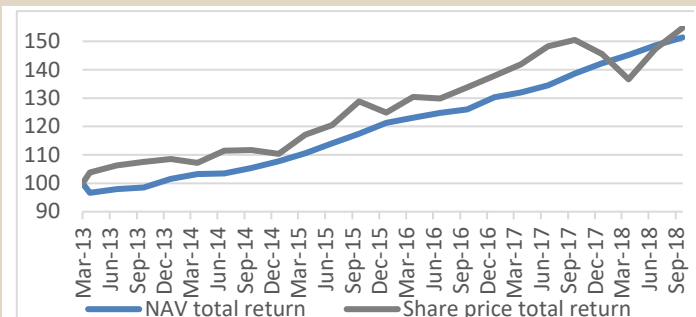
Healthcare investment market

Appetite remains high in the sector, demonstrated by continued activity in the social care real estate investment market. A number of significant portfolios and business have been reportedly marketed for sale in 2018, including three of the five biggest elderly care home operators in the UK. Most recently, a portfolio of 24 homes owned by Terra Firma and operated by Brighterkind is reportedly being marketed for sale.

Healthcare sector

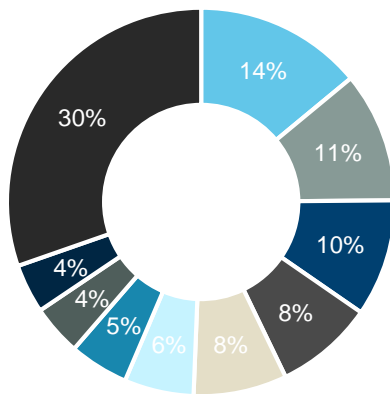
Whilst media reports continue to flag issues in the healthcare sector, including warnings over Brexit and staffing concerns, the environment remains challenging for care home operators. Further, 26% of the current care home stock lacks basic facilities, such as bedrooms with en-suites and only 17% of bedrooms have full wet room facilities. Despite this, the older population continues to grow in number and demand for elderly care services remains strong, whilst suitable care homes are not being built in sufficient numbers to meet forecast demand.

Performance – NAV and share price total return



Portfolio summary

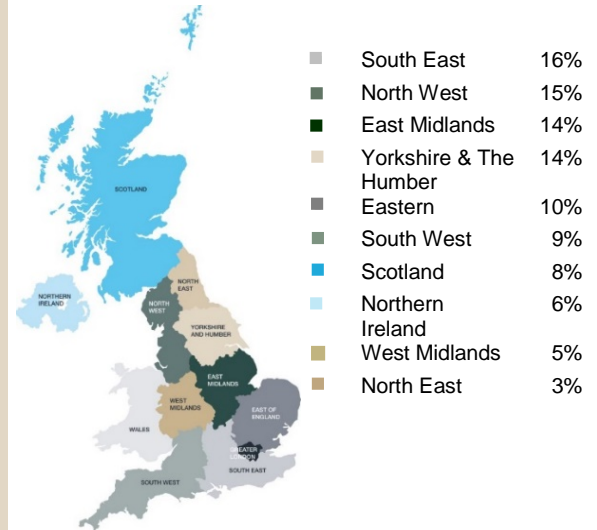
Income by operator



- Ideal Carehomes (10 homes)
- Care Concern Group (6 homes)
- Orchard Care Homes (6 homes)
- Aura Care Living (2 homes)
- Priory Group (5 homes)
- Bondcare (2 homes)
- Balhousesie Care (3 homes)
- Hudson Healthcare (2 homes)
- Hertfordshire Operator (1 home)
- 12 Other Tenants (15 homes)

Note: income % calculated by reference to total portfolio rent as at 30 September 2018 of the 52 operational assets

Geographical spread of portfolio by capital value



Note: value across 58 assets (52 operational and 6 development sites) as at 30 September 2018

Ten largest investments by income

Asset	Acquired	Location	Operator
Stratton Court Nursing Home	June 2018	South West	Aura Care Living
Hertfordshire Home	November 2017	Eastern	Hertfordshire operator
Oxfordshire Home	February 2016	South East	Oxfordshire operator
Kings Lodge	June 2018	South East	Aura Care Living
Bromford Lane Care Centre	June 2014	West Midlands	Bondcare
Barnes Lodge Care Home	October 2016	South East	Rapport Housing and Care
Sandiacre Court Care Home	August 2016	East Midlands	Hudson Healthcare
Beaumont Manor	March 2017	Eastern	Care Concern Group
The Amwell Care Home	July 2017	East Midlands	Magnum Care
Hastings Court	December 2014	South East	Oakland Primecare

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