

Target Healthcare REIT Limited (THRL:LN)

Quarterly Investor Report: November 2017 (figures as at and for quarter ended 30 September 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

(08/11/17)

Shares in issue	252,180,851
Share price	117.25 pence
Market cap	£295.7 million
Share price premium to EPRA NAV	13.5%

Key ratios and financials

(30/09/17)

Investment properties	£296.6 million
Drawn debt	£49.0 million
EPRA NAV	£260.6 million
EPRA NAV per share	103.3 pence
EPRA NAV growth	1.4%
Quarterly EPRA earnings per share*	1.53 pence
Quarterly dividend per share	1.57 pence
Dividend yield (08/11/17)	5.4%
LTV	16.5%
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	29.4 years

Summary Balance Sheet

	Sep-17 £m	Jun-17 £m
Investment properties	296.6	282.0
Cash	16.8	10.4
Net current assets / (liabilities)	(3.8)	4.5
Bank loan	(49.0)	(40.0)
Net assets	260.6	256.9
EPRA NAV per share(pence)	103.3	101.9

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 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 high quality tenants who demonstrate excellent operational capabilities and a strong care ethos.

Recent news

The group acquired a care home in Melton Mowbray and a development site for a pre-let home in Birkdale, Merseyside, for a combined value of £16.6 million including costs.

Pipeline

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

Performance

The portfolio value has increased 5.2% over the quarter, with the like-for-like value up 1.8%. The increase in like-for-like reflects value generated from our embedded rental uplifts and yield compression across the portfolio.

Healthcare investment market

Significant investor demand in the sector has led to contracting yields being paid across the market with participation from a range of investor types.

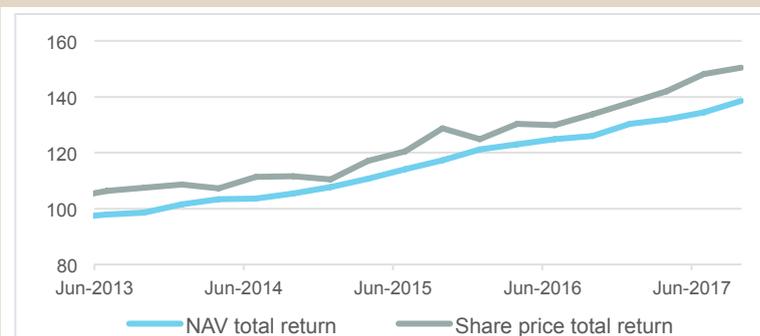
In November it was reported that H/2 Capital, a privately owned US hedge fund had put forward proposals to take control of the major UK operator Four Seasons Health Care ("FSHC") with plans to both inject new equity and cancel existing debts. Discussions are ongoing however FSHC's existing principal shareholder, private equity firm Terra Firma, has welcomed the plans.

Following the sale of 122 of its care homes to HC-One in August, Bupa announced the further sale of 22 care homes to Advinia Health Care in November. Including the homes purchased in this transaction, Advinia will now operate 38 homes across the UK.

Healthcare sector

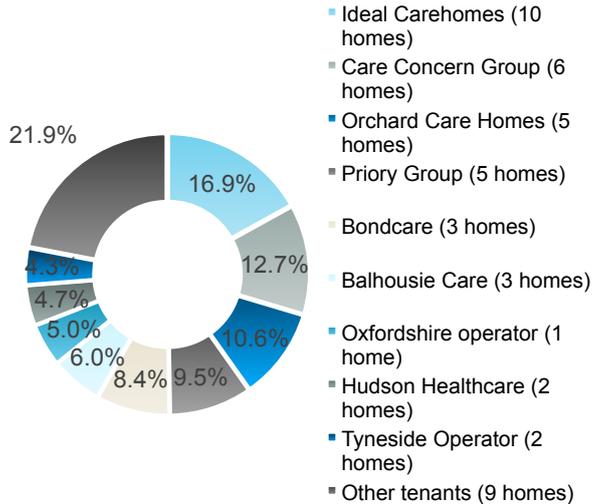
Social Care remains firmly in the headlines with the Government apparently distracted by Brexit and the promised green paper once again pushed back, now until summer 2018. Predictions of the NHS entering its 'worst winter ever' abound, which will bring with it the now familiar 'winter bed-blocking' crisis, not helped by the inability of Local Authorities and the NHS to work or budget together. The long promised 'Care Cap' continues to slip away too, originally proposed to protect pensioners from excessive care costs, with strong messages from Government ministers that pensioners with care needs must stop regarding their homes as (quote) "an asset to give to their offspring". Behind all this lies the stark statistic via the Lancet that the UK will require a further 70,000 care home beds by 2025, as the number of over 85's continues on its inexorable rise from the current 1.6M to 3.4M over the next 23 years. Couple these statistics with the growing number of closures of small, dated and inefficient care homes, we note that the rising bed demand is starting to concentrate the minds of local commissioners, leaving modern, efficient homes such as Target's better placed to negotiate fees and retain high occupancy.

Performance – NAV and share price total return



Portfolio summary

Income by operator



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

Geographical spread of portfolio by capital 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
The Amwell Care Home	July 2017	East Midlands	Magnum Care
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

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

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