RNS Number : 1821Y
Target Healthcare REIT PLC
03 May 2023

3 May 2023

Target Healthcare REIT plc and its subsidiaries

("Target Healthcare" or "the Group")

Net Asset Value, update on corporate activity and dividend declaration

Target Healthcare (LSE: THRL), the UK listed specialist investor in modern, purpose-built care homes, announces its unaudited quarterly Net Asset Value ('NAV') as at 31 March 2023, together with an update on corporate activity, and declares its third interim dividend for the year ending 30 June 2023.

Corporate activity highlights

NTA and earnings growth, the latter fully covering rebased dividend level; stable balance sheet with conservative LTV and hedged interest costs:

- EPRA Net Tangible Assets ('NTA') per share increased to 103.4 pence (31 December 2022: 103.0 pence), primarily driven by like-for-like valuation uplift from inflation-linked rent reviews and reflecting minimal yield shift
- Adjusted EPRA EPS for the quarter of 1.5 pence per share, fully covering dividend to be paid in respect of the quarter of 1.4 pence per share
- Portfolio EPRA "topped-up" net initial yield of 6.21% (31 December 2022: 6.22%)
- NAV total return of 2.1% for the quarter (based on EPRA NTA and including payment of dividend)
- Net Loan to Value of 23.8% (31 December 2022: 25.1%)
- Weighted average term to expiry on the Group's total committed loan facilities of 6.5 years (31 December 2022: 6.7 years) with an earliest maturity of November 2025. Interest costs hedged on 100% of drawn debt to the relevant facility maturity date
- Overall capital available currently £62 million, net of the Group's commitments on the four development assets

Disposals and re-tenanting activities optimising portfolio to benefit from demand tailwinds and positive outlook for private-pay market; portfolio valuation evidenced by £22m of disposals ahead of carry value; further rental growth and rent collection improvement:

- Diversified portfolio of 97 assets let to 32 tenants and valued at £855.7 million (31 December 2022: £867.7 million); on a like-for-like basis the portfolio valuation increased by 0.5%
- Disposal of four properties in Northern Ireland for a net price above their blended book value as at 30 June 2022, crystallising an annualised ungeared IRR in excess of 10% over the period of ownership
- Excluding recent disposals (2.8% decrease), the contracted rent roll increased 0.8%, from 22 inflation-linked upwards-only rent reviews, at an average uplift of 3.9%
- Weighted average unexpired lease term of 26.8 years remains one of the longest in the listed real estate sector (31 December 2022: 26.8 years), with the disposal of four shorter-duration leases offsetting the effect of the passage of time on the remaining portfolio
- High quality, modern and sustainable real estate portfolio:
    - 94% of the portfolio is A or B EPC rated, and currently compliant with the minimum energy efficiency standards anticipated to apply from 2030
    - Positive social impact from sector-leading real estate standards: 97% wet-rooms; generous 47 sqm space per resident; sustainable rent of £184 per sqm
- Rent collection of 97% (31 December 2022: 96%; 30 September 2022: 96%; 30 June 2022: 94%) as overall tenant profitability responds to the improved trading conditions across prime care homes, and in response to the completion of portfolio management initiatives

Kenneth MacKenzie, CEO of Target Fund Managers, commented:

"The long-term stability of prime UK care homes as an investment class continues to be demonstrated. Unlike many other parts of the sector, not only are valuation levels being underpinned by both occupier and investor demand, but we are also seeing rental quality backed by improving profitability trends. Rent cover, a key profitability metric, has improved to 1.5x for the most recent quarter we have data for. This compares well to pre-pandemic norms despite being achieved at lower levels of underlying resident occupancy, currently 84%. We anticipate further tenant profitability growth as occupancy closes in on the 90% generally experienced prior to the pandemic, which will further support valuations. The real estate standards fundamental to our strategy enable our tenants to attract private-fee paying residents at fee levels where they can increase staff pay and reinvest in their business.

"The recent announcement to rebase our dividend in line with current earnings was recognition of the higher interest rate environment limiting our ability to grow earnings through acquisitions at this time, as investment yields have remained relatively low for the prime UK care homes we invest in. We retain a strong conviction that improving portfolio performance, strong demographic tailwinds and our embedded inflation-linked rental growth will drive long-term sustainable returns."

Net Total Assets

The Group's unaudited EPRA NTA per share as at 31 March 2023 was 103.4 pence. The total return for the quarter based on EPRA NTA was 2.1%.

A balance sheet summary and an analysis of the movement in the EPRA NTA over the quarter is presented at the end of this announcement in the Appendix.

Corporate Update

Portfolio performance

As at 31 March 2023, the Group's portfolio was valued at £855.7 million and comprised 97 properties, consisting of 93 operational care homes and four pre-let sites, which are being developed through capped forward funding commitments with established development partners.

The portfolio value decreased by 1.4% over the quarter, comprising:

- a 0.5% increase in the like-for-like operational portfolio, reflecting a 0.8% increase from inflation-linked rent reviews and asset management activity, offset by a marginal 0.3% decrease driven by net outward yield shift on a limited number of specific assets
- a 2.4% decrease from the sale of four properties located in Northern Ireland, of which sales proceeds represented a property value decrease of 2.5% and the gain relative to the external valuation of the properties at 31 December 2022 was 0.1%
- a 0.5% increase from capital expenditure, mainly associated with the four development properties

Contractual rental income decreased by 2.0% over the quarter, comprising:

- a 0.8% like-for-like increase from 22 inflation-linked upwards-only rent reviews, with an average uplift of 3.9%; and
- a 2.8% decrease from the sale of four properties located in Northern Ireland

The portfolio's weighted average unexpired lease term was 26.8 years (31 December 2022: 26.8 years).

The portfolio had an EPRA "topped-up" net initial yield of 6.21% based on an annualised contractual rent of £55.9 million. The portfolio's EPRA net initial yield was 6.04% with two assets in rent-free periods.

Acquisitions and other asset management

As previously disclosed by the Group, during the quarter the following transactions and asset management initiatives were completed:

- The sale of four care homes in Northern Ireland, representing c. 2.5% of the Group's overall portfolio value. The disposals represent a full exit from the Northern Irish market and form part of the Group's wider capital recycling and asset management strategy. The blended disposal price is supportive of the Group's valuations, being ahead of carrying value at both 30 June 2022 (the Group's last financial year-end) and 31 December 2022, and results in an annualised ungeared IRR in excess of 10% over the period of ownership.
- The acquisition of a development site near Malvern, Worcestershire, following the receipt of the required planning consent for the construction of a 60-bed care home. Consistent with the Group's standard approach, the home is

pre-let to an existing tenant and has in place a capped development agreement which is itself underpinned by a fixed price construction contract. The lease includes green provisions such as energy-related data collection, per the Group's standard lease.

- Completion of the process to re-tenant one home, which will alleviate cashflow pressures for a tenant, allowing a return to a fully rent-paying position on its three remaining homes. The contractual rent for the incoming tenant will remain the same.

Debt facilities and swap arrangements

As at 31 March 2023, the Group's total borrowings were £230 million, representing a net LTV of 23.8% (total gross debt less cash, as a proportion of gross property value). The Group's weighted average cost on its drawn debt, inclusive of amortisation of loan arrangement costs, was 3.70% (31 December 2022: 3.79%). This excludes the amortisation of the cost of the interest rate cap given the full cost has already been deducted in calculating the EPRA NTA. The decrease in the Group's weighted average cost on its drawn debt over the quarter was due to the partial repayment of the Group's revolving credit facilities following the sale of the Northern Ireland properties.

The £230 million of drawn debt is fully hedged to further increases in interest rates. £150 million has been fixed for a weighted average term of 10.9 years with a weighted average interest rate excluding the amortisation of arrangement fees of 3.18%. £30 million of the Group's bank facilities have been fixed at 2.48% for 2.6 years through an interest rate swap and the remaining £50 million of the Group's drawn revolving credit facilities have interest rates capped via a 3% SONIA cap, also for 2.6 years. The Group has access to a further £90 million of committed, but undrawn, revolving credit facilities.

At 31 March 2023, the weighted average term to expiry on the Group's total committed loan facilities was 6.5 years (31 December 2022: 6.7 years).

Dividends in the period

The Group paid its second interim dividend for the year ending 30 June 2023, in respect of the period from 1 October 2022 to 31 December 2022, of 1.69 pence per share, on 24 February 2023 to shareholders on the register on 10 February 2023. This distribution was comprised wholly of a property income distribution (PID).

The Company announced on 27 March 2023 that increases in the marginal rate of financing and lower net initial yields available on assets that meet the Group's strict investment criteria had resulted in Board concluding that the most appropriate response was to rebase the target annual dividend level to 5.60 pence per share to reflect the Group's current recurring earnings. The Board's priority is to offer an attractive dividend to shareholders which (i) will be fully covered by earnings (ii) allows annual growth and (iii) fully contributes to an attractive level of total return.

Announcement of third interim dividend

The Company today declares its third interim dividend for the year ending 30 June 2023, in respect of the period from 1 January 2023 to 31 March 2023, of 1.40 pence per share as detailed in the schedule below:

Interim Property Income Distribution (PID):	1.40 pence per share
Interim ordinary dividend:	nil

Ex-Dividend Date:	11 May 2023
Record Date:	12 May 2023
Payment Date:	26 May 2023

The dividend reflects an annualised payment of 5.60 pence per share and a dividend yield of 7.4% based on the 2 May 2023 closing share price of 75.7 pence.

The Company had 620,237,346 ordinary shares in issue at 31 March 2023 and has not issued or bought back any shares since that date.

Shareholders entitled to elect to receive distributions without deduction for withholding tax may complete the declaration form which is available on request from the Company through the contact details provided on its website www.targethealthcarereit.co.uk, or from the Company's registrar. Shareholders who qualify for gross payments are, principally, UK resident companies, certain UK public bodies, UK charities, UK pension schemes and the managers of ISAs, PEPs and Child Trust Funds, in each case subject to certain conditions. Individuals and non-UK residents do not qualify for gross payments of distributions and should not complete the declaration form.

LEI: 213800RXPY9WULUSBC04

ENDS

Enquiries:

Target Fund Managers Limited Kenneth MacKenzie Gordon Bland	Tel: 01786 845 912
Stifel Nicolaus Europe Limited Mark Young Catriona Neville	Tel: 020 7710 7600
FTI Consulting Dido Laurimore Richard Gotla	Tel: 020 7710 7600 TargetHealthcare@fticonsulting.com

Notes to editors:

UK listed Target Healthcare REIT plc (THRL) is an externally managed Real Estate Investment Trust which provides shareholders with an attractive level of income, together with the potential for capital and income growth, from investing in a diversified portfolio of modern, purpose-built care homes.

The Group's portfolio at 31 March 2023 comprised 97 assets let to 32 tenants with a total value of £855.7 million.

The Group invests in modern, purpose-built care homes that are let to high quality tenants who demonstrate strong operational capabilities and a strong care ethos. The Group builds collaborative, supportive relationships with each of its tenants as it believes working in this way helps raise standards of care and helps its tenants build sustainable businesses. In turn, that helps the Group deliver stable returns to its investors.

Important information

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the UK version of the Market Abuse Regulations (EU) No. 596/2014, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

APPENDIX

1. **Analysis of movement in EPRA NTA**

The following table provides an analysis of the movement in the unaudited EPRA NTA per share for the period from 1 January 2023 to 31 March 2023:

	Pence per share
EPRA NTA per share as at 31 December 2022	**103.0**
Revaluation gains / (losses) on investment properties	0.7
Revaluation gains / (losses) on assets under construction^	(0.2)
Revaluation gains / (losses) on investment properties realised	0.1
Movement in revenue reserve	1.5
Second interim dividend payment for the year ending 30 June 2023	(1.7)
EPRA NTA per share as at 31 March 2023	**103.4**
Percentage change in the quarter	**0.4%**

The EPRA Best Practices Recommendations Guidelines state that companies should publish a set of three NAV metrics. The full set of EPRA NAV metrics are published in the Group's Annual Report. The Company intends to continue to announce the EPRA NTA on a quarterly basis.

At 31 March 2023, due to the valuation ascribed to the Group's interest rate derivative contracts used to hedge its exposure to variable interest rates, which are excluded from the calculation of the EPRA NTA, the unaudited NAV calculated under International Financial Reporting Standards was 104.2 pence per share.

^Consistent with standard valuation practice for assets under construction, the carrying value of these assets is calculated by the valuer through application of a discount to accumulated costs to date. This discount varies depending on factors such as the remaining development time. As the asset progresses towards completion, the discount that has been applied is unwound.

2. Summary balance sheet (unaudited)

	Mar-23 £m	Dec-22 £m	Sep-22 £m	Jun-22 £m
Property portfolio*	855.7	867.7	913.7	911.6
Cash	26.4	21.8	19.6	34.5
Net current assets / (liabilities)*	(10.5)	(10.4)	(15.2)	(14.8)
Bank loans	(230.0)	(240.0)	(223.0)	(234.8)
Net assets	**641.6**	**639.1**	**695.1**	**696.5**
EPRA NTA per share (pence)	103.4	103.0	112.1	112.3

*Properties within the portfolio are stated at the market value provided by the external valuer and the IFRS effects of fixed/guaranteed minimum rent reviews are not reflected.

The next quarterly valuation of the property portfolio will be conducted by Colliers International Healthcare Property Consultants Limited during July 2023 and the unaudited EPRA NTA per share as at 30 June 2023 is expected to be announced in July 2023.

3. EPRA NIY profiles and unwind of rent-free periods

The Group currently has two assets with rent-free periods. As these unwind, assuming no other changes including inter alia the portfolio valuation or rental profile, the EPRA yield profiles for the portfolio will be as follows:

	31 March 2023	30 June 2023	30 Sept 2023	31 Dec 2023	31 March 2024	30 June 2024
EPRA topped-up NIY	6.21%	6.21%	6.21%	6.21%	6.21%	6.21%
EPRA NIY	6.04%	6.04%	6.04%	6.13%	6.17%	6.21%
Contractual rent (£m)	55.9	55.9	55.9	55.9	55.9	55.9
Passing rent (£m)	54.4	54.4	54.4	55.2	55.6	55.9

END

MSCNKBBKOBKDPPK