

MedicX Fund

Q3 IMS

Q3 progress towards full year forecast

MedicX Fund has reported steady portfolio and rental growth in Q3 with no surprises. The fund offers a good yield (c 7%) generated from a broad portfolio of long-dated leases in primary care infrastructure with quasi-government underlying risk. Earnings growth and cover on the progressive dividend are benefitting through the balance of this year and next from the deployment of equity raised in October 2013 and reduced debt costs. Octopus Capital's agreed acquisition (subject to regulatory approval) of MedicX Group, owner of the Investment Adviser to the fund, should have little impact on the fund; existing management will remain in the same roles.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	Yield (%)	NAV/share (p) ¹	All-in NAV/share (p) ²	DCF (p) ³
09/12	16.6	5.6	2.4	5.6	6.9	63.7	64.3	88.2
09/13	25.5	9.7	3.7	5.7	7.0	63.1	69.4	97.0
09/14e	29.4	10.1	3.0	5.8	7.1	64.7	68.4	N/A
09/15e	34.4	13.4	3.8	5.9	7.2	64.8	68.5	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, asset revaluations, performance fees, exceptional items and share-based payments. ¹Excluding goodwill, deferred tax and mark-to-market adjustments. ²Including adjustment for mark-to-market valuation of long-term, fixed-rate debt. ³Investment Adviser's DCF.

Continued portfolio and rental growth...

Other than minor adjustments to the share count our estimates are essentially unchanged. During the quarter, MedicX has committed £16.9m to four further properties. Three of these are under construction (taking the total to six, all due to complete within the next 12 months). Three smaller non-core properties were sold for £4.3m in June. Our forecasts include a net £35m of portfolio additions in H2 as a whole, and c £100m pa after that. Eighteen leases (rents of £1.0m) have been reviewed, achieving the equivalent of a 1.81% pa increase (1.74% on open market reviews and 3.27% on RPI linked). MedicX continues to believe that upwards pressure on construction costs will lift open market rent reviews.

...and capital value gains

The portfolio was valued at £494.5m at the end of June, on the basis that all properties were complete. A slight reduction in the net initial yield (from 5.75% to 5.73% in March) generated a capital value uplift of £0.9m, before a £0.1m write-off of purchase costs. The portfolio yield remains well ahead of the 4.45% weighted average cost of debt. June NAV per share was 64.8p or 67.8p including the mark to market on fixed rate debt.

Valuation: Dependable yield

The fund offers a prospective yield of 7.1% with a progressive dividend policy; cover is temporarily reduced due to the successful equity raise but should increase through 2015 and income predictability is high. The investment adviser's DCF value per share for these predictable cash flows (discount rate 7.05%, a 3.6% risk premium over 20 year gilts) is 91.9p.

Real estate

1 August 2014

Price **81.50p**
Market cap **£288m**

Net debt as at 31 March 2014 (£m)	246
Shares in issue	353.7m
Free float	100%
Code	MXF
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.1)	(3.8)	1.8
Rel (local)	(1.7)	(2.9)	(0.3)
52-week high/low	87.00p	74.83p	

Business description

MedicX Fund is a specialist investor in primary care infrastructure. It holds a portfolio of 134 properties (including those under construction), let mainly to government-funded (NHS) tenants (90%) and pharmacies on GP surgery sites (8%).

Next events

Q3 ex-div	13 August 2014
Full year (FY14) results	10 December 2014

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[Edison profile page](#)

Exhibit 1: Financial summary

Year end 30 September	2011	2012	2013	2014e	2015e
PROFIT & LOSS					
Revenue	12,474	16,633	25,537	29,357	34,433
Cost of Sales	(214)	(283)	(413)	(619)	(585)
Gross Profit	12,260	16,350	25,124	28,739	33,848
EBITDA	9,011	12,694	20,616	23,465	27,737
Operating Profit (before GW and except.)	9,011	12,694	20,616	23,465	27,737
Intangible Amortisation	0	0	0	0	0
Revaluation of investment properties	3,409	(2,269)	248	6,882	7,329
Investment advisory performance fee / loss on disposal of property	(808)	(646)	(240)	(859)	0
Operating Profit	11,612	9,779	20,624	29,488	35,067
Net Interest	(4,957)	(7,138)	(10,959)	(13,321)	(14,372)
Profit Before Tax (norm)	4,054	5,556	9,657	10,144	13,365
Profit Before Tax (FRS 3)	6,655	2,641	9,665	16,167	20,694
Deferred tax on fair value movements in property values	665	0	(161)	0	0
Profit After Tax (norm)	4,054	5,554	9,656	10,144	13,366
Profit After Tax (FRS 3)	7,320	2,641	9,504	16,167	20,694
Average Number of Shares Outstanding (m)	170.5	229.4	263.4	343.0	355.4
EPS - normalised (p)	2.4	2.4	3.7	3.0	3.8
EPS - normalised fully diluted (p)	2.4	2.4	3.7	3.0	3.8
EPS - FRS 3 (p)	4.3	1.2	3.6	4.7	5.8
Dividend per share (p)	5.50	5.60	5.70	5.80	5.90
Gross Margin (%)	98.3	98.3	98.4	97.9	98.3
EBITDA Margin (%)	72.2	76.3	80.7	79.9	80.6
Operating Margin (before GW and except.) (%)	72.2	76.3	80.7	79.9	80.6
BALANCE SHEET					
Fixed Assets	213,603	365,067	426,649	517,276	559,605
Intangible Assets	0	0	0	0	0
Tangible Assets	195,589	337,853	399,502	486,866	549,195
Properties under construction	18,014	27,214	27,147	30,410	10,410
Current Assets	23,235	72,604	38,067	37,000	24,076
Stocks	0	0	0	0	0
Debtors	5,125	6,358	11,004	12,000	14,075
Cash	18,112	66,247	27,063	25,000	10,001
Current Liabilities	(9,316)	(16,088)	(19,994)	(26,000)	(28,000)
Creditors	(9,316)	(16,088)	(19,994)	(26,000)	(28,000)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	(100,705)	(255,928)	(273,732)	(301,919)	(327,731)
Long term borrowings	(100,443)	(255,453)	(272,615)	(300,386)	(326,198)
Other long term liabilities	(262)	(475)	(1,117)	(1,533)	(1,533)
Net Assets	126,817	165,655	170,990	226,357	227,950
Net Assets excluding goodwill and deferred tax	127,081	165,916	171,832	227,615	229,208
NAV/share (p)	66.0	63.7	62.5	64.3	64.4
Adjusted NAV per share	66.0	63.7	63.1	64.7	64.8
Est. value/share of Fund's long-term fixed rate debt (p)	2.0	0.6	6.3	3.7	3.7
NAV/share including benefit of long-term debt (p)	68.0	64.3	69.4	68.4	68.5
CASH FLOW					
Operating Cash Flow	8,879	14,222	18,515	21,849	27,663
Net Interest	(5,166)	(7,805)	(11,495)	(12,889)	(14,372)
Tax	0	0	0	0	0
Capex	0	0	0	0	0
Acquisitions/disposals	(29,453)	(55,793)	(30,428)	(62,587)	(35,000)
Financing	35,779	44,965	(1,757)	56,195	0
Dividends	(8,727)	(11,539)	(13,610)	(16,707)	(19,101)
Net Cash Flow	1,312	(15,950)	(38,775)	(14,139)	(40,811)
Opening net debt/(cash)	83,570	82,331	189,206	245,552	275,386
HP finance leases initiated	0	0	0	0	0
Other items (including debt assumed on acquisition)	(73)	(90,925)	(17,571)	(15,695)	(0)
Closing net debt/(cash)	82,331	189,206	245,552	275,386	316,197

Source: Company data, Edison Investment Research

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