

MedicX Fund

Quarterly update

Income and capital growth continuing

MedicX Fund produced a 3.9% EPRA NAV total return in the three months ended 31 December 2017, with EPRA NAV per share increasing to 78.0p from 76.5p, and including the 1.50p dividend per share paid in the period. A quarterly dividend of 1.51p per share has been approved for payment in March and the fund still targets an aggregate 6.04p payout for the year to 30 September 2018. Capital commitments continued in the period and the pipeline of acquisition opportunities remains strong. While investment advisor fees remain frozen, asset growth should have a geared impact on earnings, contributing towards increased dividend cover.

Year end	Net rental income (£m)	Adj. earnings* (£m)	Adj. EPS* (p)	DPS (p)	EPRA NAV/ share (p)	P/NAV (x)	Yield (%)
09/16	34.3	14.2	3.8	5.95	73.2	1.13	7.2
09/17	35.9	14.9	3.6	6.00	76.5	1.09	7.2
09/18e	40.4	17.2	4.0	6.04	76.9	1.08	7.3
09/19e	45.9	18.8	4.4	6.08	77.9	1.07	7.3

Note: *Adjusted earnings and EPS exclude deferred taxation, revaluation gains, performance fees and exceptional items.

Yield tightening continues to support total return

The externally assessed quarterly valuation of the investment portfolio increased to £698.6m in the three months to 31 December, up 2.6%. The £18.3m increase included a revaluation gain of £8.3m and £15.2m of capital investment offset by £5.2m of disposals, comprising five small, non-core assets. The valuation reflects a further slight tightening in the UK net initial yield, to 5.05% versus 5.08% at 30 September, and a yield forecast of more than 6% in Republic of Ireland. The capital investment includes two previously disclosed acquisitions including a fifth property in the Republic of Ireland, at Kilkenny. Six properties were under construction at the end of December 2017, four of which are due to complete in the next two months.

Continuing investment in line with forecasts

Investment in the period is in line with our unchanged forecasts, which assume c £100m in new investment commitment during the current year and, given the lag between commitment and investment for forward funding agreements, cash investment of c £65m in the current year. The pipeline of investment opportunities remains strong, with c £108m of UK properties undergoing legal due diligence, and Irish assets with a value of c €60m that are either under final negotiation or undergoing legal due diligence and structuring analysis. With investment advisor fees frozen until the portfolio reaches £782m, further portfolio growth should have a geared impact on earnings and dividend potential (see our last [Outlook note](#)).

Valuation: Total return supports high distribution

MedicX offers one of the highest yields in the sector, with cash flows supported by growing highly secure, long-term income derived mainly from government sources. Distributions have regularly exceeded income earnings with the difference more than covered by capital earnings. In the five years to end-FY17, EPRA NAV total return growth was a compound 13.5% pa.

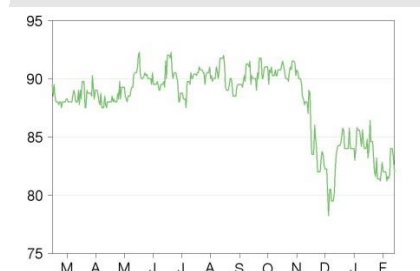
Real estate

15 February 2018

Price 83p
Market cap £356m

Net debt (£m) at 30 September 2017	340.7
Net LTV at 30 September 2017	49.5%
Shares in issue	428.8m
Free float	100%
Code	MXF
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.2)	(6.7)	(6.2)
Rel (local)	6.4	(4.3)	(6.4)
52-week high/low		92.2p	78.2p

Business description

MedicX Fund is a specialist REIT, listed on the premium segment of the London Stock Exchange, investing in primary care infrastructure in the UK and Republic of Ireland. The investment objective is to achieve rising rental income and capital growth from the ownership of high-quality, modern, purpose-built primary healthcare properties.

Next events

Interim results	22 May 2018
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[Edison profile page](#)

MedicX Fund is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

Year ending 30 September	2016	2017	2018e	2019e
£000's				
Revenue	34,322	35,947	40,416	45,916
Investment advisory fee	(3,852)	(3,867)	(3,878)	(4,229)
Investment advisory performance fee	(1,553)	0	0	0
Property management fee	(889)	(925)	(977)	(1,056)
Other administrative expenses	(1,015)	(1,293)	(1,102)	(1,116)
Total recurring administrative expenses	(7,309)	(6,085)	(5,957)	(6,400)
Operating profit before valuation movements	27,013	29,862	34,459	39,516
Net revaluation gain/(loss) on investment property	15,523	18,654	10,407	11,733
Profit/(loss) on disposal of investment property	31	(65)	0	0
Operating profit	42,567	48,451	44,866	51,249
Share of profit of JV	0	10	20	20
Net finance expense	(14,380)	(15,149)	(17,319)	(20,739)
Profit Before Tax (norm)	28,187	33,312	27,567	30,530
Tax	(1,556)	5,312	0	0
Net profit	26,631	38,624	27,567	30,530
Adjust for:				
Net revaluation gain/(loss) on investment property	(15,523)	(18,654)	(10,407)	(11,733)
Deferred tax	1,556	(5,312)	0	0
Other	(56)	0	0	0
EPRA earnings	12,608	14,658	17,160	18,797
Investment advisory performance fee	1,553	240	0	0
Other	0	0	0	0
Adjusted earnings	14,161	14,898	17,160	18,797
Average fully diluted number of shares outstanding (m)	374.5	413.1	429.1	430.0
Basic IFRS EPS (p)	7.1	9.4	6.4	7.1
EPS - normalised (p)	3.8	3.6	4.0	4.4
DPS declared (p)	5.95	6.00	6.04	6.08
Dividend cover	63.8%	60.2%	66.3%	72.0%
Expense ratio*	2.11%	1.94%	1.81%	1.92%
BALANCE SHEET				
Investment properties	612,264	680,355	756,012	866,495
Investment in equity accounted JV	0	1,035	1,035	1,035
Total non-current assets	612,264	681,390	757,047	867,530
Cash & equivalents	20,968	32,145	20,238	16,877
Trade & other receivables	8,519	7,176	8,520	9,787
Total current assets	29,487	39,321	28,758	26,663
Loans due after one year	(334,307)	(370,583)	(430,583)	(530,583)
Deferred tax liability	(5,887)	(575)	(575)	(575)
Other non-current liabilities	(1,490)	(1,456)	(1,456)	(1,456)
Total non-current liabilities	(341,684)	(372,614)	(432,614)	(532,614)
Loans due within one year	(1,983)	(2,213)	(2,213)	(2,213)
Trade & other payables	(19,923)	(18,682)	(21,299)	(24,467)
Total current liabilities	(21,906)	(20,895)	(23,512)	(26,680)
Net assets	278,161	327,202	329,679	334,899
Adjust for:				
Deferred tax	5,887	575	575	575
EPRA net assets	284,048	327,777	330,254	335,474
Adjustment to debt at fair value	(59,134)	(42,574)	(42,574)	(42,574)
EPRA NAV	224,914	285,203	287,680	292,900
Period end fully diluted number of shares outstanding (m)	388.1	428.6	429.5	430.4
Basic IFRS NAV per share (p)	71.7	76.3	76.8	77.8
Fully diluted EPRA NAV per share (p)	73.2	76.5	76.9	77.9
Fully diluted EPRA NAV per share (p)	56.4	66.4	66.8	67.9
CASH FLOW				
Cash flow from operating activity	11,408	15,104	18,434	20,698
Cash flow from investing activity	(36,281)	(50,668)	(65,250)	(98,750)
Issue of equity (net of costs)	18,962	34,526	0	0
New loan facilities drawn/debt repaid	(1,895)	37,070	60,000	100,000
Dividends paid (net of scrip)	(21,582)	(24,013)	(25,090)	(25,310)
Other financing activity	(6,554)	(859)	0	0
Net cash flow from financing activity	(11,069)	46,724	34,910	74,690
Change in cash	(35,942)	11,160	(11,907)	(3,362)
FX	0	17	0	0
Opening cash	56,910	20,968	32,145	20,238
Closing cash	20,968	32,145	20,238	16,877
Debt	(336,290)	(372,796)	(432,796)	(532,796)
Net debt	(315,322)	(340,651)	(412,558)	(515,919)
Net LTV	50.8%	49.5%	53.9%	59.5%

Source: MedicX Fund, Edison Investment Research. Note: *Recurring admin expense (excluding direct property expense) as % average EPRA NAV.

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