Physicians Realty Trust (DOC)

Updated May 18th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	4.8%	**Volatility Percentile:**	37.9%
Fair Value Price:	$16	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	90.0%
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Growth Percentile:**	18.7%
Dividend Yield:	5.0%	**5 Year Price Target**	$19	**Valuation Percentile:**	29.2%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	24.6%

Physicians Realty Trust was organized in April of 2013. The real estate investment trust, based in Milwaukee, Wisconsin, acquires, develops, owns and manage healthcare properties. These properties are leased to physicians, hospital and healthcare delivery systems. The trust's portfolio of 238 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust trades with a market capitalization of $3.5 billion and generates in excess of $400 million in annual revenues.

Physicians Realty Trust reported first quarter financial results on May 1st. The trust's funds-from-operation, or FFO, was $0.25 in the quarter, which was $0.01 below estimates and a 4% decline from the previous year. Revenue grew 0.1% to $1.05.4 million, which beat estimates by $1.1 million.

Physicians Realty Trust also announced it had leased a recently vacant surgical hospital and medical office building in El Paso, TX. Both properties have since found new tenants with 10-year lease agreements. Tenants are expected to resume paying rent in the second half of 2019, which should help the trust see a higher rate of growth in the second and third quarters. Same-store cash net operating income grew 1.5%. Excluding the vacant El Paso properties, same-store cash net operating income was up 2.9%. The portfolio was 95.4% leased at the end of the first quarter, with 53% of tenants receiving at least an investment grade rating. Only 2% of Physicians Realty Trust's portfolio is scheduled to renew during the current year and less than 7% of the trust's tenants will need to renew each year from 2020 through 2025. The trust expects to invest $200 to $400 million in new properties in 2019. We expect Physicians Realty Trust's FFO to total $1.06 per share in 2019, which would be a 1.9% decline from 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO	---	---	---	---	$0.27	$0.70	$0.92	$0.98	$1.04	$1.08	***$1.06***	***$1.25***
DPS	---	---	---	---	$0.23	$0.90	$0.90	$0.90	$0.91	$0.92	***$0.92***	***$0.92***
Shares	---	---	---	---	12	37	77	130	168	188	***189***	***200***

FFO for Physicians Realty Trust has quadrupled since becoming a publicly traded trust. The trust has compounded FFO by a rate of 9% over the past five years, but much of this growth occurred in the early years of this time frame. Over the last three years, FFO has grown by a rate of 3.3%. It should be noted that growth has slowed recently, but Physicians Realty Trust has drastically increased its share count in order to fund acquisitions. FFO continued to grow even as the share count increased. Erroring on the side of caution, we expect the trust to grow FFO at 3.3% annually over the next five years. Applying our growth rate by our expected FFO per share could see FFO of $1.25 by 2024.

Physicians Realty Trust's dividend remained unchanged in 2015 and 2016, but was raised a $0.01 in each of the next two years. Given the lack of dividend growth since its IPO, and the already-high payout ratio, we are not projecting dividend growth for the trust over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	---	---	---	---	47.2	23.7	18.3	19.3	17.3	14.8	***17.9***	***15.0***
Avg. Yld.	---	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	***5.0%***	***4.8%***

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Physicians Realty Trust has traded with an average price-to-funds-from-operation ratio of 23.4 since becoming public. Removing the trust's first year valuation, that average P/FFO ratio drops to 18.7. Due to low expected FFO growth over the next five years, we have a 2024 target P/FFO ratio of 15. Based off of the current share price and expected FFO for 2019, the stock has a P/FFO ratio of 17.9. If shares were to trade at our target, valuation would be a 3.5% headwind to annual returns.

Physicians Realty Trust has traded with an average yield of 5.3% over the past five years, which is slightly higher than the current yield. The current yield is 2.5x the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	85%	129%	98%	92%	88%	85%	***87%***	***74%***

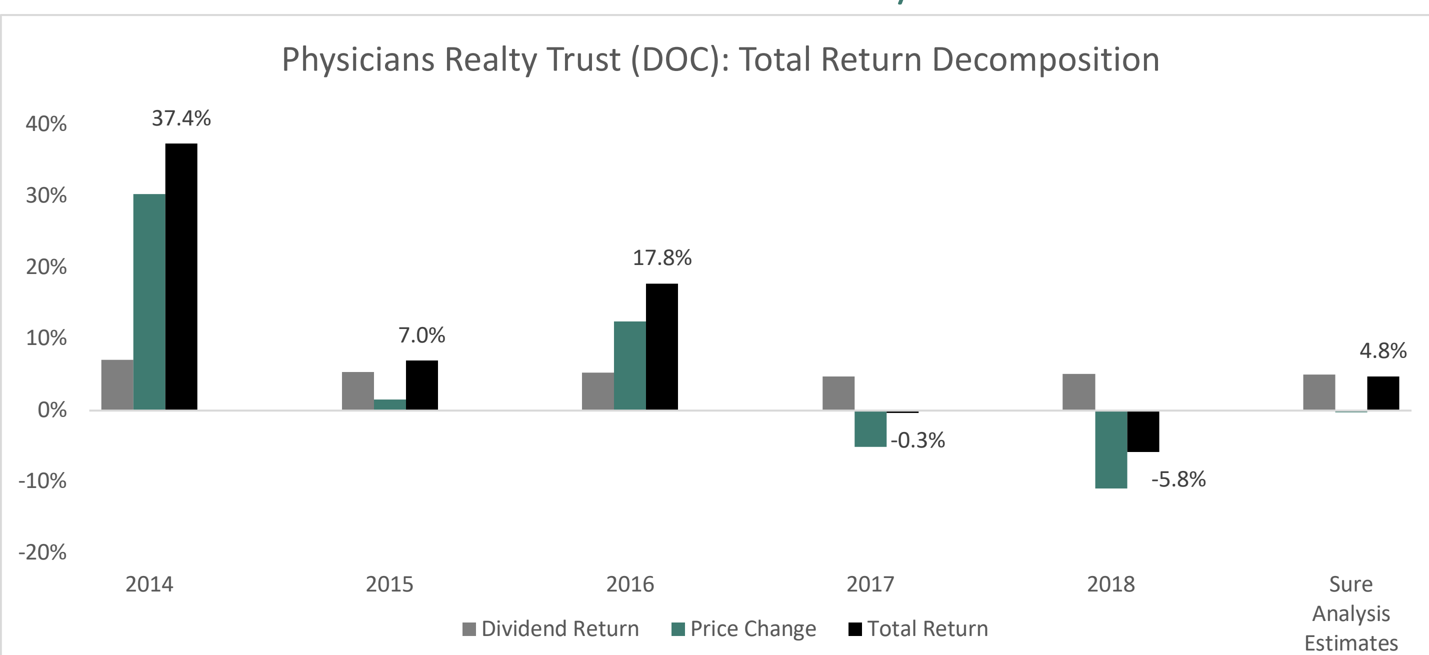
Real Estate Investment Trusts are required must distribute at least 90% of taxable income in the form of dividends so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with the trust.

Physicians Realty Trust key competitive advantage is that its properties are likely to be in demand regardless of economic conditions; consumers will seek out medical care during all parts of the economic cycle. The trust has also shown the ability increase FFO while simultaneously issuing stock to help finance transactions.

Final Thoughts & Recommendation

After reviewing Physicians Realty Trust's business model, dividend history and recent financial results, we estimate that the trust can offer a total annual return of 4.8% through 2024. We arrive at this estimate based on growth (3.3%), dividends (5%) and multiple reversion (3.5%). The trust's properties are likely to be in demand during the next recession. The stock's yield, while generous, is unlikely to grow in the coming years. Physicians Realty Trust earns a hold recommendation from Sure Dividend at this time due to low projected total returns. The stock currently trades at our 2024 price target.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	N/A	52	126	232	335	411
Gross Profit	N/A	N/A	N/A	N/A	N/A	42	95	166	238	288
Gross Margin	N/A	N/A	N/A	N/A	N/A	80.6%	75.3%	71.6%	71.0%	70.2%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	11	15	18	23	29
D&A Exp.	N/A	N/A	N/A	N/A	N/A	17	48	90	130	163
Operating Profit	N/A	N/A	N/A	N/A	N/A	14	34	61	90	101
Operating Margin	N/A	N/A	N/A	N/A	N/A	26.7%	27.2%	26.4%	26.8%	24.6%
Net Profit	N/A	N/A	N/A	N/A	N/A	-4	12	30	38	56
Net Margin	N/A	N/A	N/A	N/A	N/A	-7.7%	9.4%	12.9%	11.4%	13.7%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	11	52	107	155	174

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	N/A	812	1639	2888	4164	4143
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	16	3	15	3	19
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	8	19	42	58	73
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	3	5	13	14	13
Total Liabilities	N/A	N/A	N/A	N/A	N/A	242	562	1106	1617	1695
Accounts Payable	N/A	N/A	N/A	N/A	N/A	1	1	4	11	4
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	216	484	991	1477	1533
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	535	1021	1738	2473	2380
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.40	0.47	0.57	0.60	0.64

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	-0.7%	1.0%	1.3%	1.1%	1.4%
Return on Equity	N/A	N/A	N/A	N/A	N/A	-1.1%	1.5%	2.2%	1.8%	2.3%
ROIC	N/A	N/A	N/A	N/A	N/A	-0.8%	1.0%	1.4%	1.1%	1.4%
Shares Out.	N/A	N/A	N/A	N/A	12	37	77	130	168	188
Revenue/Share	N/A	N/A	N/A	N/A	N/A	1.58	1.64	1.78	1.99	2.19
FCF/Share	N/A	N/A	N/A	N/A	N/A	0.33	0.68	0.82	0.92	0.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.