Physicians Realty Trust (DOC)

Updated August 13th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$17.25	**5 Year CAGR Estimate:**	7.0%	**Volatility Percentile:**	36.0%
Fair Value Price:	$16	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	61.6%
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Growth Percentile:**	21.9%
Dividend Yield:	5.3%	**5 Year Price Target**	$19	**Valuation Percentile:**	37.6%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	32.9%

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, hospitals, 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 $3.2 billion and generates in excess of $400 million in annual revenues.

Physicians Realty Trust reported second quarter financial results on 8/13/19. The trust generated $0.21 of funds-from-operation, or FFO, in the quarter, which was $0.05 lower than expected and a 25% decline from the previous year. Revenue declined 11.3% to $94.9 million, which was $11 million below estimates.

Much of the FFO and revenue decline were largely due to several companies with leased properties declaring bankruptcy in order to facilitate a sale under bankruptcy protections. As such, Physicians Realty Trust did not receive rental payments. The trust recognized a write-off of past due rental payments that lowered rental income by $5.1 million. Physicians Realty Trust saw net operating income improve 3.5% year-over-year. The trust also purchased two healthcare properties with a combined 50K square feet of lease space during the quarter. 96% of Physicians Realty Trust's 237 properties were leased at the conclusion of the second quarter. We continue to 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[1]	---	---	---	---	12	37	77	130	168	188	***191***	***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. Erring 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	***16.3***	***15.0***
Avg. Yld.	---	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	***5.3%***	***4.9%***

[1] In millions of shares

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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Shares of Physicians Realty Trust have decreased $1.75, or 9.2%, since our 5/18/2019 update. 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 16.3. If shares were to trade at our target, valuation would be a 1.6% headwind to annual returns.

Physicians Realty Trust's current yield is in-line with the stock's five-year average yield. The current yield is nearly 3x 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%***

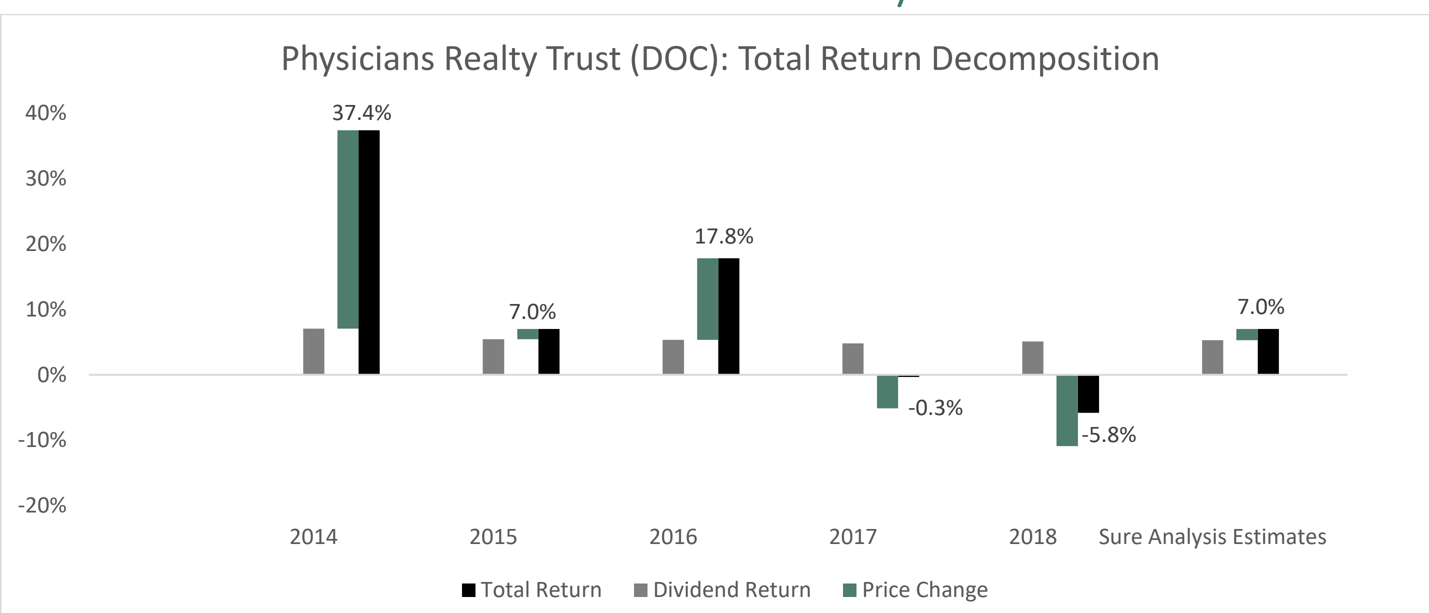
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with the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

Following second quarter results and the share price decline since our original report, we estimate that Physicians Realty Trust can offer a total annual return of 7% through 2024, up from our previous estimate of 4.8%. This estimate is based on earnings growth (3.3%) and dividend yield (5.3%) partially offset by earnings reversion (1.6%). The trust's most recent quarter was negatively impacted by a non-recurring charge that isn't likely to occur in future quarters. Physicians Realty Trust offers a very compelling yield, though the dividend is unlikely to grow in the coming years given the trust's history. We maintain our hold rating on the stock due to expected mid-single digit returns over the next five years, but income investors looking for diversification among their REIT holdings could be interested in the 5%+ yield.

Total Return Breakdown by Year



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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.