



# LTC Properties (LTC)

Updated August 27<sup>th</sup>, 2019 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$49	<b>5 Year CAGR Estimate:</b>	6.2%	<b>Volatility Percentile:</b>	30.9%
<b>Fair Value Price:</b>	\$45	<b>5 Year Growth Estimate:</b>	3.0%	<b>Momentum Percentile:</b>	68.8%
<b>% Fair Value:</b>	108%	<b>5 Year Valuation Multiple Estimate:</b>	-1.5%	<b>Growth Percentile:</b>	15.4%
<b>Dividend Yield:</b>	4.7%	<b>5 Year Price Target</b>	\$53	<b>Valuation Percentile:</b>	40.3%
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Total Return Percentile:</b>	29.8%

## Overview & Current Events

LTC Properties is a REIT that invests in senior housing and skilled nursing properties. Its portfolio consists of approximately 50% seniors housing and 50% skilled nursing properties. The REIT owns more than 200 investments in 28 states with 30 operating partners and has a market capitalization of \$1.9 billion.

Just like other healthcare REITs, LTC benefits from a strong secular trend, namely the high growth of the population that is above 80 years old. This growth results from the aging of the baby boomers' generation and the steady rise of life expectancy thanks to sustained progress in medical sciences.

LTC is currently facing a strong headwind, the bankruptcy of Senior Care Centers, which is the largest skilled nursing operator in Texas. Senior Care filed for Chapter 11 bankruptcy in December. Until last year, it was generating 9.7% of the annual revenues of LTC and was the fifth largest customer of LTC. The latter is currently trying to assign those properties to another Texas operator under similar terms.

In early August, LTC reported (8/8/19) financial results for the second quarter of fiscal 2019. Just like in the first quarter, funds from operations (FFO) per share remained flat over last year's quarter, at \$0.75. During the quarter, the REIT completed the construction of a 110-unit senior housing community in Wisconsin and transitioned several units from Thrive to a new operator under attractive multi-year leases. While management did not provide any guidance for this year, we reiterate that the REIT is on track to post essentially flat FFO per share this year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>FFO</b>	\$1.89	\$1.83	\$2.01	\$2.26	\$2.29	\$2.55	\$2.77	\$3.06	\$3.10	\$3.06	<b>\$3.06</b>	<b>\$3.55</b>
<b>DPS</b>	\$1.56	\$1.58	\$1.68	\$1.79	\$1.91	\$2.04	\$2.07	\$2.19	\$2.28	\$2.28	<b>\$2.28</b>	<b>\$2.50</b>
<b>Shares<sup>1</sup></b>	23.2	24.6	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9	<b>40.2</b>	<b>46.0</b>

Thanks to the aforementioned favorable underlying fundamentals of the healthcare sector, LTC has grown its funds from operations at a 5.5% average annual rate in the last decade. Moreover, the REIT has most of its assets in the states with the highest projected increases in the 80+ population cohort over the next decade. On the other hand, growth has stalled in the last two years, partly due to the bankruptcy of Senior Care. We also prefer to be somewhat cautious in our future estimates as a large number of leases, which generates 22% of total revenues, mature by the end of 2021. We assume 3.0% growth in funds from operations per unit over the next five years.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/FFO</b>	12.2	14.4	13.8	14.5	17.2	15.3	15.6	15.7	15.4	13.6	<b>16.0</b>	<b>14.8</b>
<b>Avg. Yld.</b>	6.8%	6.0%	6.1%	5.4%	4.9%	5.2%	4.8%	4.6%	4.8%	5.5%	<b>4.7%</b>	<b>4.7%</b>

1. In millions.

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.



# LTC Properties (LTC)

Updated August 27<sup>th</sup>, 2019 by Aristofanis Papadatos

LTC has traded at an average price-to-FFO ratio of 14.8 during the last decade. The stock has consistently traded around this valuation level in the last four years. LTC is currently trading at a FFO multiple of 16.0. If the stock trades at its average valuation level in five years from now, it will incur a 1.5% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	82.5%	86.3%	83.6%	79.2%	83.4%	80.0%	74.7%	71.6%	73.5%	74.5%	<b>74.5%</b>	<b>70.4%</b>

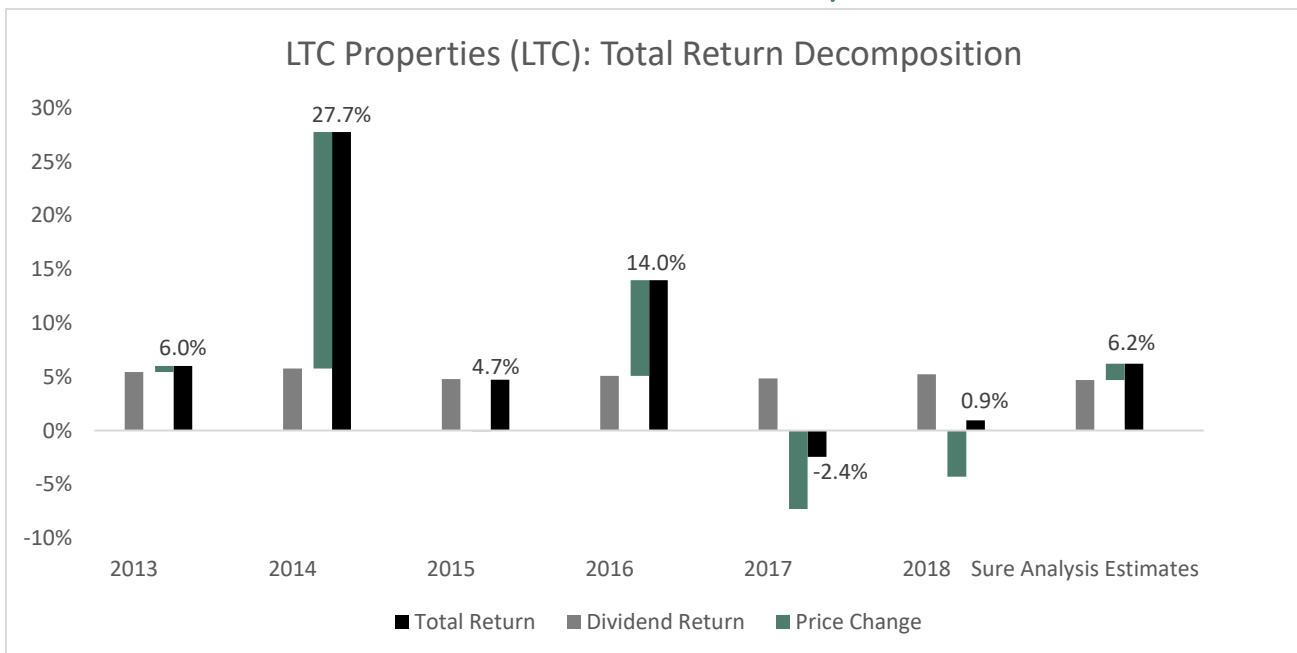
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by its stagnation in the last two years. In addition, the default of a major customer of LTC proved that the REIT has tenant bankruptcy risk.

LTC is offering an attractive 4.7% dividend yield. Since 2008, it has raised its dividend at a 3.9% average annual rate. However, it has frozen its dividend in the last two years due to the absence of underlying growth. Consequently, it is prudent to expect lackluster dividend growth for the foreseeable future. On the other hand, the payout ratio is a healthy 74.5% and the balance sheet is decent, with a debt to adjusted EBITDA of 4.5 and an interest coverage ratio above 3.0. As a result, the dividend can be considered safe for the foreseeable future. The REIT has a smooth debt maturity schedule until 2021 but it may be somewhat pressured in 2022, when 29% of its debt (\$195 million out of \$677 million) matures, particularly if the prevailing business conditions are not favorable in that year.

## Final Thoughts & Recommendation

LTC is poised to fail to grow its funds from operations for a third year in a row. With that said, we expect the REIT to overcome the headwind from the bankruptcy of its major customer and return to growth mode next year. Nevertheless, as the market has already priced a significant portion of future growth in the stock, we expect LTC to offer a 6.2% average annual return over the next five years, mostly thanks to its 4.7% dividend. We thus maintain our hold rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

1. In millions.

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.



# LTC Properties (LTC)

Updated August 27<sup>th</sup>, 2019 by Aristofanis Papadatos

## Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenue</b>	69	74	84	92	105	119	136	162	168	169
<b>Gross Profit</b>	N/A	72	77	83	94	106	119	135	138	138
<b>Gross Margin</b>	0.0%	96.4%	92.3%	89.3%	89.2%	89.0%	87.2%	83.6%	82.2%	82.1%
<b>SG&amp;A Exp.</b>	8	10	10	11	12	12	15	17	18	19
<b>D&amp;A Exp.</b>	15	16	20	22	25	26	29	36	38	38
<b>Operating Profit</b>	21.4%	21.7%	23.5%	24.0%	23.5%	21.5%	21.6%	22.2%	22.4%	22.3%
<b>Operating Margin</b>	47	46	49	50	56	68	73	81	83	82
<b>Net Profit</b>	67.1%	61.9%	58.1%	54.4%	52.9%	57.5%	53.5%	50.2%	49.5%	48.3%
<b>Net Margin</b>	44	46	49	51	58	73	73	85	87	155
<b>Free Cash Flow</b>	43	65	70	77	87	96	102	106	105	116

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>	491	561	647	790	931	965	1275	1395	1466	1514
<b>Cash &amp; Equivalents</b>	9	7	4	7	7	25	13	8	5	3
<b>Accounts Receivable</b>	17	20	24	27	30	33	43	55	64	74
<b>Total Liabilities</b>	36	104	178	326	299	305	616	655	707	681
<b>Long-Term Debt</b>	25	91	156	301	277	281	572	609	668	645
<b>Shareholder's Equity</b>	266	329	428	425	594	622	659	740	755	825
<b>D/E Ratio</b>	0.06	0.20	0.33	0.65	0.44	0.43	0.87	0.82	0.88	0.78

## Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Return on Assets</b>	8.8%	8.7%	8.2%	7.1%	6.7%	7.7%	6.5%	6.4%	6.1%	10.4%
<b>Return on Equity</b>	16.5%	15.4%	13.0%	12.0%	11.4%	12.1%	11.4%	12.2%	11.7%	19.6%
<b>ROIC</b>	9.3%	8.9%	8.4%	7.4%	6.9%	7.9%	6.7%	6.6%	6.3%	10.7%
<b>Shares Out.</b>	23.2	24.6	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9
<b>Revenue/Share</b>	2.99	3.02	2.86	3.05	3.17	3.25	3.65	4.19	4.24	4.23
<b>FCF/Share</b>	1.87	2.64	2.41	2.54	2.63	2.61	2.74	2.74	2.66	2.90

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.