Physicians Realty Trust (DOC)

Updated November 6th, 2019 by Nathan Parsh

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	5.3%	**Volatility Percentile:**	30.9%
Fair Value Price:	$16	**5 Year Growth Estimate:**	3.3%	**Momentum Percentile:**	53.7%
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Growth Percentile:**	24.5%
Dividend Yield:	5.1%	**5 Year Price Target**	$19	**Valuation Percentile:**	48.6%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	37.8%

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 $3.3 billion and generates in excess of $400 million in annual revenues.

Physicians Realty Trust reported third quarter earnings results on 11/6/19. The trust generated $0.27 of funds-from-operation, or FFO, in the third quarter, beating estimates by $0.01, but declining 3.6% from the prior year. Revenue improved 2.4% to $107.6 million, topping estimates by $2.6 million.

Medical Office Buildings, which represents 91% of net leasable square footage, had same-store growth of 3.3%. Physicians Realty Trust purchased eight healthcare properties during the quarter for a combined sum of $82 million and divested one property for a gain of $0.4 million. The trust began receiving contractually-owed rent payments from LifeCare Holdings. The company had declared bankruptcy in the previous quarter and Physicians Realty Trust hadn't received contractual mandated payments in the second quarter. Past due rent, real estate taxes, late charges and interest owed to the trust will now be paid in monthly installments for 12 months. 96% of Physicians Realty Trust's properties were leased at the conclusion of the third 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***

Funds-from-operations, or FFO, for Physicians Realty Trust has quadrupled since becoming a publicly traded trust. The trust has compounded FFO at 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 modest growth rate to our expected FFO per share for this year 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.

[1] In millions of shares

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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	***17.0***	***15.0***
Avg. Yld.	---	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	***5.1%***	***4.9%***

Shares of Physicians Realty Trust have increased $0.75, or 4.3%, since our 8/13/2019 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. We have a 2024 target P/FFO ratio of 15 due to low expected FFO growth over the next five years. Based off of the current share price and expected FFO for 2019, the stock has a P/FFO ratio of 17.0. If shares were to trade at our target, valuation would be a 2.5% 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 more than 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%***

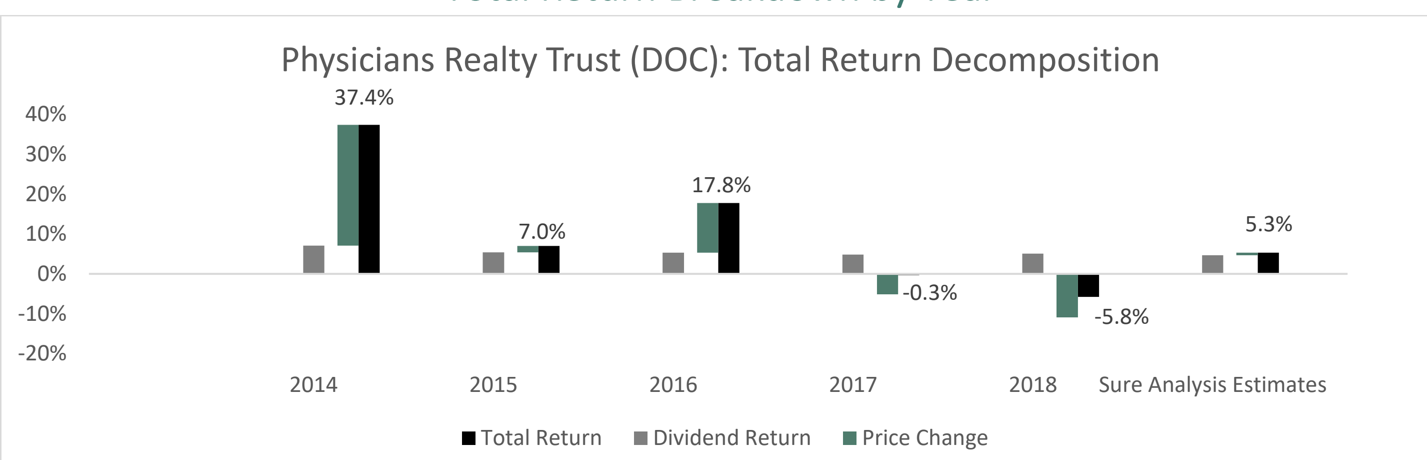
Real Estate Investment Trusts are required must distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed.

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 third quarter results, Physicians Realty Trust is expected to provide an annual return of 5.3% through 2024, down from our previous estimate of 7.0%. Physicians Realty Trust's results should improve going forward now that the trust has an agreement in place with LifeCare Holdings regarding past due rents and other expenses. Physicians Realty Trust saw solid same-store growth for its Medical Office Building portfolio. The trust also has a high occupancy rate and the stock offers a very generous yield, if not dividend growth. We maintain our hold rating on Physicians Realty Trust due to mediocre projected returns. Investors seeking income, however, may find the yield very attractive.

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.

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