



LTC Properties (LTC)

Updated February 24th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	5.5%	Market Cap:	\$2.0B
Fair Value Price:	\$46	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	3/20/2020
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	3/31/2020
Dividend Yield:	4.6%	5 Year Price Target	\$53	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

LTC Properties is a REIT that invests in senior housing and skilled nursing properties. Its portfolio consists of approximately 50% senior housing and 50% skilled nursing properties. The REIT owns approximately 200 investments in 28 states with 30 operating partners and has a market capitalization of \$2.0 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-2018. Until 2018, 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 mid-February, LTC reported (2/20/20) financial results for the fourth quarter of fiscal 2019. Adjusted funds from operations (FFO) per unit rose 4% over prior year's quarter, from \$0.73 to \$0.76, thanks to higher rental income from acquisitions and completed developments. During the quarter, the REIT acquired a 76-unit assisted living community center in Michigan for \$19.0 million and entered into a 10-year lease agreement with a new operator at an initial cash yield of 7.4%. Management did not provide any guidance for this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	\$1.83	\$2.01	\$2.26	\$2.29	\$2.55	\$2.77	\$3.06	\$3.10	\$3.06	\$3.08	\$3.05	\$3.54
DPS	\$1.58	\$1.68	\$1.79	\$1.91	\$2.04	\$2.07	\$2.19	\$2.28	\$2.28	\$2.28	\$2.28	\$2.50
Shares¹	24.6	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9	39.8	40.0	46.0

Thanks to the aforementioned favorable underlying fundamentals of the healthcare sector, LTC has grown its funds from operations at a 5.0% 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 three 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 generate 8.3% of total revenues, mature by the end of this year. We continue to expect 3.0% growth in funds from operations per unit over the next five years.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	14.4	13.8	14.5	17.2	15.3	15.6	15.7	15.4	13.6	15.1	16.4	15.1
Avg. Yld.	6.0%	6.1%	5.4%	4.9%	5.2%	4.8%	4.6%	4.8%	5.5%	4.9%	4.6%	4.7%

¹ In millions.

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LTC has traded at an average price-to-FFO ratio of 15.1 during the last decade. The stock has consistently traded around this valuation level in the last five years. Due to a 14% rally in the last two months, along with the broad market, LTC is now trading at a FFO multiple of 16.4. If it trades at its average valuation level in five years from now, it will incur a -1.6% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	86.3%	83.6%	79.2%	83.4%	80.0%	74.7%	71.6%	73.5%	74.5%	74.0%	74.8%	70.8%

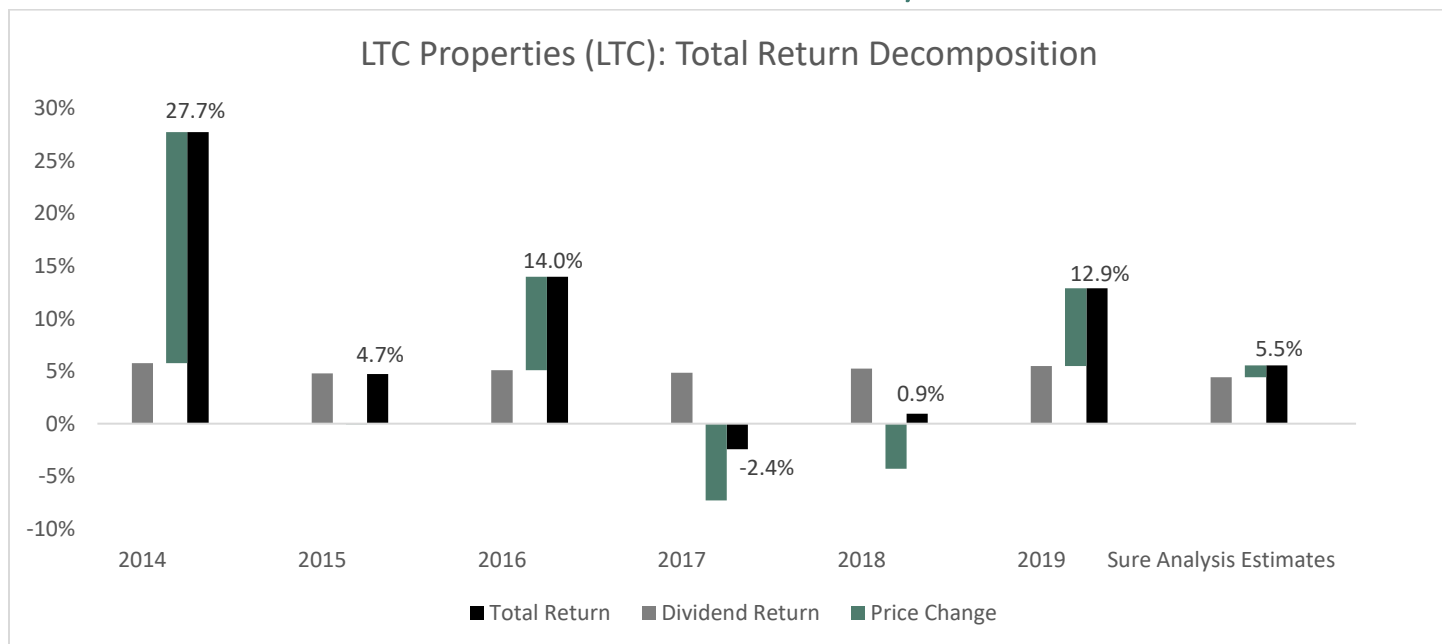
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by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

LTC is offering an attractive 4.6% 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 75% and the balance sheet is decent, with a debt to adjusted EBITDA of 4.6 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 20.5% of its debt (\$142 million out of \$694 million) matures, particularly if the prevailing business conditions are not favorable in that year.

Final Thoughts & Recommendation

LTC is likely to fail to grow its funds from operations for a fourth year in a row in 2020. 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, the stock seems fairly valued right now and we expect it to offer just a 5.5% average annual return over the next five years, mostly thanks to its 4.6% dividend. We thus maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	74	84	92	105	119	136	162	168	169	185
Gross Profit	72	77	83	94	106	119	135	138	138	138
Gross Margin	96.4%	92.3%	89.3%	89.2%	89.0%	87.2%	83.6%	82.2%	82.1%	74.5%
SG&A Exp.	10	10	11	12	12	15	17	18	19	18
D&A Exp.	16	20	22	25	26	29	36	38	38	39
Operating Profit	21.7%	23.5%	24.0%	23.5%	21.5%	21.6%	22.2%	22.4%	22.3%	43.2%
Operating Margin	46	49	50	56	68	73	81	83	82	80
Net Profit	46	49	51	58	73	73	85	87	155	81
Net Margin	61.9%	58.1%	54.4%	52.9%	57.5%	53.5%	50.2%	49.5%	48.3%	43.5%
Free Cash Flow	65	70	77	87	96	102	106	105	116	122

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	561	647	790	931	965	1275	1395	1466	1514	1514
Cash & Equivalents	7	4	7	7	25	13	8	5	3	4
Accounts Receivable	20	24	27	30	33	43	55	64	74	46
Total Liabilities	104	178	326	299	305	616	655	707	681	729
Long-Term Debt	91	156	301	277	281	572	609	668	645	693
Shareholder's Equity	329	428	425	594	622	659	740	755	825	777
D/E Ratio	0.20	0.33	0.65	0.44	0.43	0.87	0.82	0.88	0.78	0.89

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.7%	8.2%	7.1%	6.7%	7.7%	6.5%	6.4%	6.1%	10.4%	5.3%
Return on Equity	15.4%	13.0%	12.0%	11.4%	12.1%	11.4%	12.2%	11.7%	19.6%	10.1%
ROIC	8.9%	8.4%	7.4%	6.9%	7.9%	6.7%	6.6%	6.3%	10.7%	5.4%
Shares Out.	24.6	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9	39.8
Revenue/Share	3.02	2.86	3.05	3.17	3.25	3.65	4.19	4.24	4.23	4.66
FCF/Share	2.64	2.41	2.54	2.63	2.61	2.74	2.74	2.66	2.90	3.08

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

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