Physicians Realty Trust (DOC)

Updated March 5th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$4.1B
Fair Value Price:	$17	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	4/02/20[1]
% Fair Value:	121%	**5 Year Valuation Multiple Estimate:**	-3.8%	**Dividend Payment Date:**	4/17/20[2]
Dividend Yield:	4.6%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 generates annual revenues in excess of $400 million.

Physicians Realty Trust reported fourth quarter and full-year earnings results on 2/26/2020. The trust generated $0.27 of funds-from-operation, or FFO, in the fourth quarter, which was in-line with estimates and matched results from the prior year. Revenue improved 2% to $107.4 million, but was $2.2 million below what the analyst community had expected. For 2019, FFO declined 7.4% to $1.00 while revenue decreased 1.7% to $415.3 million.

Medical Office Buildings, which represents more than 90% of net leasable square footage, had same-store growth of 2.5% for the quarter. For the year, average same-store sales improved 3.1%. The trust had 95.9% of properties leased at the end of 2019. Physicians Realty Trust completed investments of $274.3 million during the fourth quarter. This gave the trust a total of $452.2 million of investments during the year, with 95% of properties already under lease agreements. 85% of new investments were leased to investment grade health systems and their subsidiaries. Physicians Realty Trust expects $400 million to $700 million of real estate investments during 2020. Physicians Realty Trust is expected to produce FFO of $1.10 per share in 2020, which would be a 10% increase from results for 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	---	---	---	$0.27	$0.70	$0.92	$0.98	$1.04	$1.08	$1.00	***$1.10***	***$1.20***
DPS	---	---	---	$0.23	$0.90	$0.90	$0.90	$0.91	$0.92	$0.92	***$0.92***	***$0.92***
Shares[3]	---	---	---	12	37	77	130	168	188	194	***197***	***205***

FFO for Physicians Realty Trust has nearly quadrupled since becoming a publicly-traded trust. The trust has compounded FFO by a rate of 21% since forming, but much of this growth occurred in the early years of this time frame. Over the last five years, FFO has grown by a rate of 1.7%. 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 have adjusted our expected FFO growth rate to 1.7% from 3.3% previously. Applying this new growth rate by our expected FFO per share could see FFO of $1.20 by 2025.

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] Estimated date

[2] Estimated dividend payment date

[3] 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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	---	---	---	47.2	23.7	18.3	19.3	17.3	14.8	18.9	***18.2***	***15.0***
Avg. Yld.	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	***4.6%***	***5.4%***

Shares of Physicians Realty Trust have increased $2, or 11.1%, since our 11/6/2019 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 2025 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 2020, the stock has a P/FFO ratio of 18.2. If shares were to trade at our target, valuation would be a 3.8% headwind to annual returns.

Physicians Realty Trust's current yield is slightly below the stock's five-year average yield. The current yield is more than 2x the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	85%	129%	98%	92%	88%	85%	92%	***88%***	***81%***

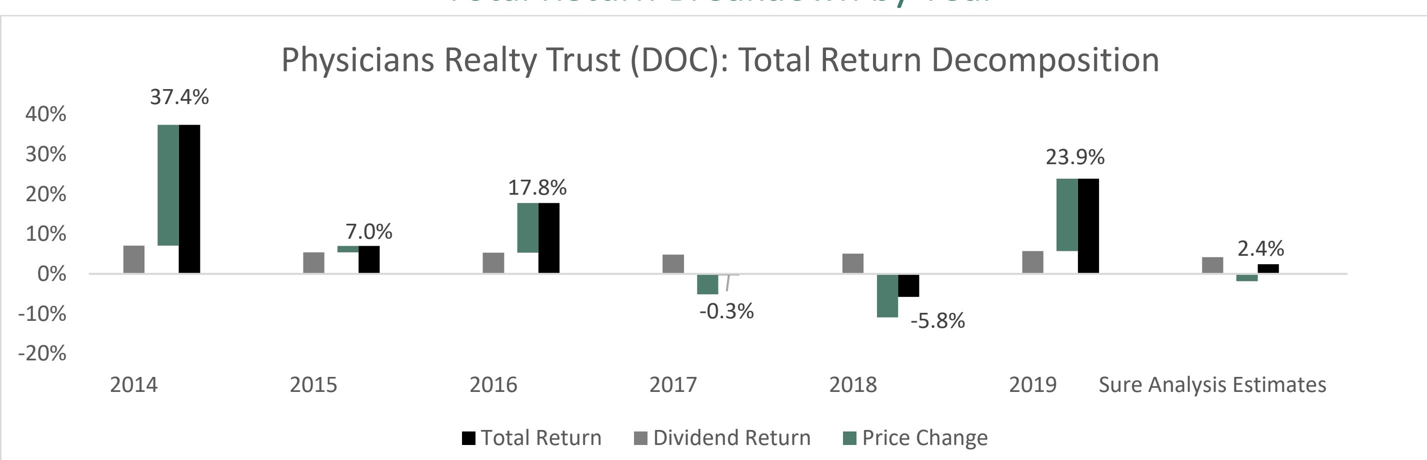
Real Estate Investment Trusts are required must distribute at least 90% of taxable income in the form of dividends so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with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

Following fourth quarter and full-year results, Physicians Realty Trust is projected to return 2.4% annually through 2025, down from our previous estimate of 5.3%. Shares of the trust are higher by 11% over the last year and have actually outperformed the S&P 500 during the recent volatility. Same-store sales growth was solid for the quarter and the trust acquired new properties with a high lease rate. That said, the stock is only expected to offer mediocre returns over the next five years. The yield is generous, but the dividend isn't like to grow given Physicians Realty Trust's history. We have lowered our 2025 price target $1 to $18 due to our expected growth rate and rate shares a sell, down from hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	14	13	17	52	126	232	335	411	404
Gross Profit	---	9	8	12	42	95	166	238	288	280
Gross Margin	---	64.2%	63.2%	72.3%	80.6%	75.3%	71.6%	71.0%	70.2%	69.1%
SG&A Exp.	---	1	1	4	11	15	18	23	29	33
D&A Exp.	---	5	4	5	17	48	90	130	163	151
Operating Profit	---	3	3	3	14	34	61	90	101	100
Operating Margin	---	22.1%	21.0%	20.0%	26.7%	27.2%	26.4%	26.8%	24.6%	24.7%
Net Profit	---	(3)	(2)	(2)	(4)	12	30	38	56	74
Net Margin	---	-22.1%	-12%	-13.3%	-7.7%	9.4%	12.9%	11.4%	13.7%	18.4%
Free Cash Flow	---	3	3	0	11	52	107	155	174	161

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	125	108	293	812	1,639	2,888	4,164	4,143	4,347
Cash & Equivalents	---	2	3	56	16	3	15	3	19	2
Accounts Receivable	---	1	1	3	8	19	42	58	73	8
Goodwill & Int. Ass.	---	7	6	33	76	210	315	473	466	518
Total Liabilities	---	102	88	52	242	562	1,106	1,617	1,695	1,866
Accounts Payable	---	2	2	1	1	1	4	11	4	6
Long-Term Debt	---	99	84	43	216	484	991	1,477	1,533	1,634
Shareholder's Equity	---	22	19	205	535	1,021	1,738	2,473	2,380	2,409
D/E Ratio	---	---	4.43	0.21	0.40	0.47	0.57	0.60	0.64	0.68

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	-1.3%	-1.1%	-0.7%	1.0%	1.3%	1.1%	1.4%	1.8%
Return on Equity	---	---	-7.4%	-2.0%	-1.1%	1.5%	2.2%	1.8%	2.3%	3.1%
ROIC	---	---	-1.5%	-1.2%	-0.8%	1.0%	1.4%	1.1%	1.4%	1.8%
Shares Out.	---	---	---	12	37	77	130	168	188	194
Revenue/Share	---	1.30	1.21	1.30	1.58	1.64	1.78	1.99	2.19	2.11
FCF/Share	---	0.27	0.25	0.01	0.33	0.68	0.82	0.92	0.93	0.84

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