Physicians Realty Trust (DOC)

Updated May 10th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$3.3B
Fair Value Price:	$17	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	7/02/20[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	7/18/20[2]
Dividend Yield:	5.8%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**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 financial results for the first quarter on 5/7/2020. The trust's funds-from-operation of $0.26 was a $0.01, or 4%, improvement from the previous year. This was in-line with estimates. Revenue increased 1.9% to $107.4 million, which was $1.24 million lower than expected.

The COVID-19 pandemic was not a major factor in quarterly results. The trust collected 94% of April's rent and only 2 out of 260 healthcare properties were closed as of 5/7/2020. 93% of the overall leased space was operational as of 5/4/2020. Net income increased 30% to $15 million. Medical Office Buildings, which represents more than 92% of net leasable square footage, had same-store growth of 1.6% year-over-year. Physicians Realty Trust completed two acquisitions for a total investment of $12.2 million. In addition, the trust acquired one land parcel and funded $6.6 million of previously committed construction loans. In total, Physicians Realty Trust has investment activity of ~$19 million. The trust had 96% of properties leased at the end of the first quarter. Total expenses decreased 2% to $92.3 million, with operating expenses lower by $1.2 million and interest expense down $0.6 million. Physicians Realty Trust sold 12.4 million shares at a weighted average price of $19.57 for more than $239 million in proceeds. We reaffirm our estimate of FFO of $1.10 per share in 2020 for the trust, 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	***203***	***2010***

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.

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[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	***14.5***	***15.0***
Avg. Yld.	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	***5.8%***	***5.1%***

Shares of Physicians Realty Trust have decreased $4, or 20%, since our 3/5/2020 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 14.5. If shares were to trade at our target, valuation would be a 0.6% tailwind to annual returns.

Physicians Realty Trust's current yield is above the stock's five-year average yield of 5.3%. The current yield is nearly 3x 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%	***84%***	***77%***

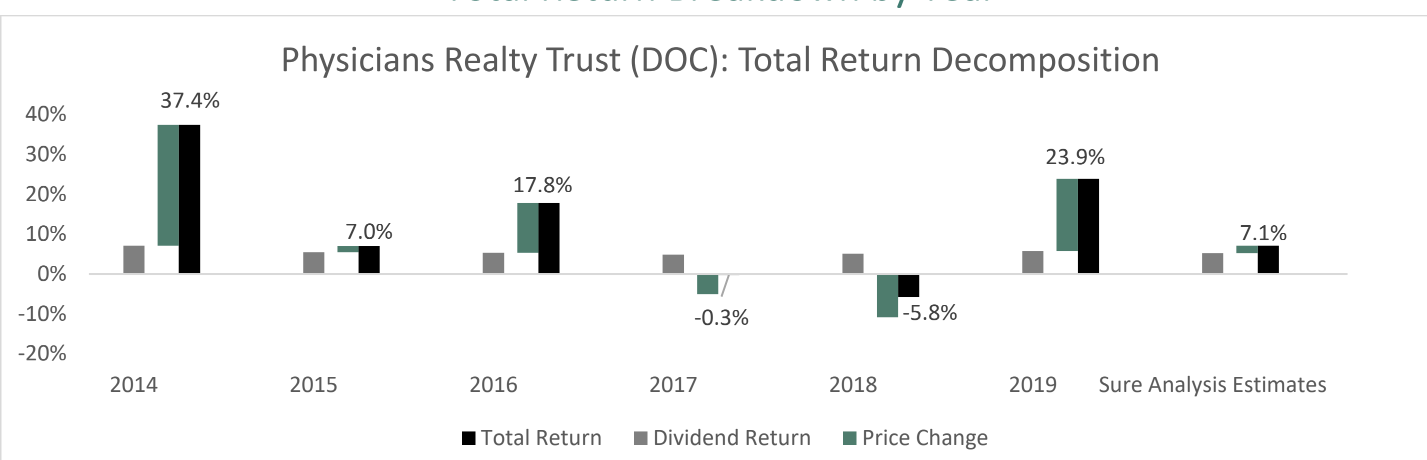
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with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

After first quarter results and the share price decline since our last update, Physicians Realty Trust is projected to return 7.1% annually through 2025, up from our previous estimate of 2.4%. The trust had a solid first quarter, with growth in net income, FFO, revenue and same-store sales. Physicians Realty Trust faced a minimal impact from the ongoing COVID-19 pandemic. Shares yield near 6%. The yield could be enticing to income seeking investors even without any promise of future dividend growth. We maintain our 2025 price target, but go to hold from sell due to projected total returns.

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.