Physicians Realty Trust (DOC)

Updated August 9th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	3.8%	**Market Cap:**	$3.7 B
Fair Value Price:	$16	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	10/02/20[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	10/16/20[2]
Dividend Yield:	5.1%	**5 Year Price Target**	$17	**Years Of Dividend Growth:**	0
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**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 second quarter on 8/6/2020. Revenue improved nearly 15% to $109.1 million, which topped estimates by $2 million. The trust's funds-from-operation increased $0.06, or 29%, to $0.27, $0.01 higher than expected.

As with the prior quarter, the COVID-19 pandemic did impact results in a significant way in the second quarter. The trust collected 98% of second quarter rent during the quarter and 97% of rent due in July. Medical Office Buildings, which represents 89% of net leasable square footage, had same-store cash net operating income growth of 1.4%. The trust's occupancy rate was 96% at the end of the quarter. Physicians Realty Trust sold 5.5 million shares during the quarter at an average price of $18.07, generating $99.1 million in proceeds to be used towards investments. Consensus estimates call for $1.05 of adjusted FFO for 2020, down from $1.10 previously.

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	***$1.05***	***$1.14***
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	***210***	***2020***

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 $1.14 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.

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	***17.1***	***15.0***
Avg. Yld.	---	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	***5.1%***	***5.4%***

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[1] Estimated date

[2] Estimated dividend payment date

[3] In millions of shares

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Shares of Physicians Realty Trust have increased $2, or 12.5%, since our 5/10/2020 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 17.1. If shares were to trade at our target multiple, then valuation would reduce annual returns by 2.6% through 2025.

Physicians Realty Trust's current yield is just below the stock's five-year average yield of 5.3%, but 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%	***88%***	***81%***

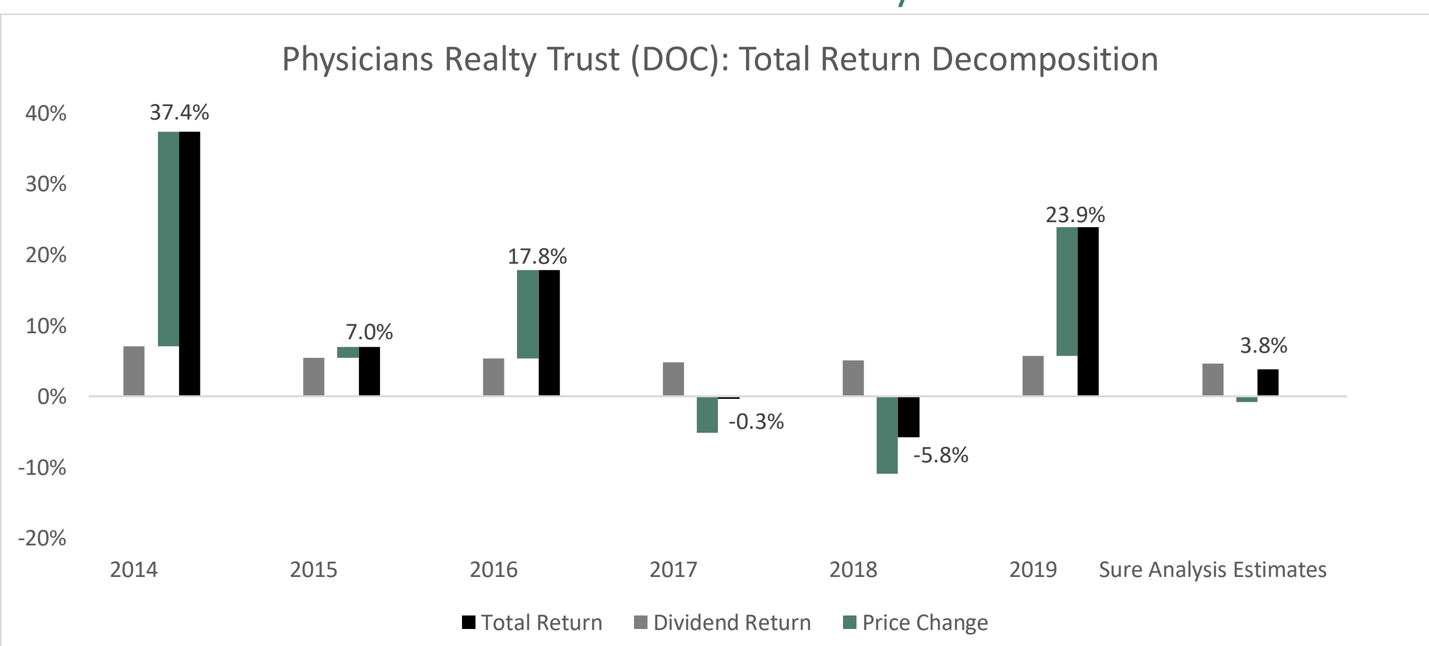
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with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

Following second quarter results, Physicians Realty Trust is now projected to return 3.8% annually through 2025, down from our previous estimate of 7.1%. The trust was again left untouched by the COVID-19 pandemic, as same-store cash NOI inched higher year-over-year. Physicians Realty Trust also has a very high occupancy rate and the stock has a 5%+ dividend yield. That said, we maintain our hold rating on the stock due to projected returns over the next five years. We have also lowered our 2025 price target $1 to $17 due to EPS estimates for this year.

Total Return Breakdown by Year



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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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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.