Physicians Realty Trust (DOC)

Updated February 27th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$3.7 B
Fair Value Price:	$16	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	4/01/21[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	4/16/21[2]
Dividend Yield:	5.4%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**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 269 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust generates annual revenues in excess of $450 million.

Physicians Realty Trust reported financial results for the fourth quarter and full year on 2/25/2021. For the quarter, revenue grew 3.8% to $111.44 million, $2.6 million better than expected. Funds-from-operation of $0.26 was in-line with estimates but 3.7% lower than the prior year. For the year, revenue increased 5.4% to $437.5 million while funds-from-operation decreased 1% to $1.05.

As with prior quarters, the COVID-19 pandemic had minimal impact on the trust's results. Medical Office Buildings, which comprise 93% of net leasable square footage, had same-store cash NOI growth of 1.5% for the quarter. The portfolio was 96% leased at the end of the fourth quarter, a slight improvement sequentially. Physicians Realty Trust collected 99.6% of fourth quarter rent as of 2/22/021. The trust had also collected 99.3% of rent in January (including 100% of deferred rent).

The trust is expected to generate funds-from-operation of $1.09 in 2021. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	---	---	$0.27	$0.70	$0.92	$0.98	$1.04	$1.08	$1.00	$1.05	***$1.09***	***$1.19***
DPS	---	---	$0.23	$0.90	$0.90	$0.90	$0.91	$0.92	$0.92	$0.92	***$0.92***	***$0.92***
Shares[3]	---	---	12	37	77	130	168	188	194	216	***216***	***225***

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 $1.19 by 2026.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	---	---	47.2	23.7	18.3	19.3	17.3	14.8	18.9	17.0	***15.6***	***15.0***
Avg. Yld.	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	5.2%	***5.4%***	***5.2%***

Shares of Physicians Realty Trust have decreased $1, or 5.6%, since our 11/10/2020 update. Physicians Realty Trust has traded with an average price-to-funds-from-operation ratio of 23.4 since becoming a public. Removing the trust's first year valuation, the average P/FFO ratio drops to 18.5. We have a 2026 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 2021, the stock has a P/FFO ratio of 15.6. If shares were to trade at our target multiple, then valuation would reduce annual returns by 0.8% through 2026.

Physicians Realty Trust's current yield is just above the stock's five-year average yield of 5.3%, but is more than 3X the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	85%	129%	98%	92%	88%	85%	92%	88%	***84%***	***78%***

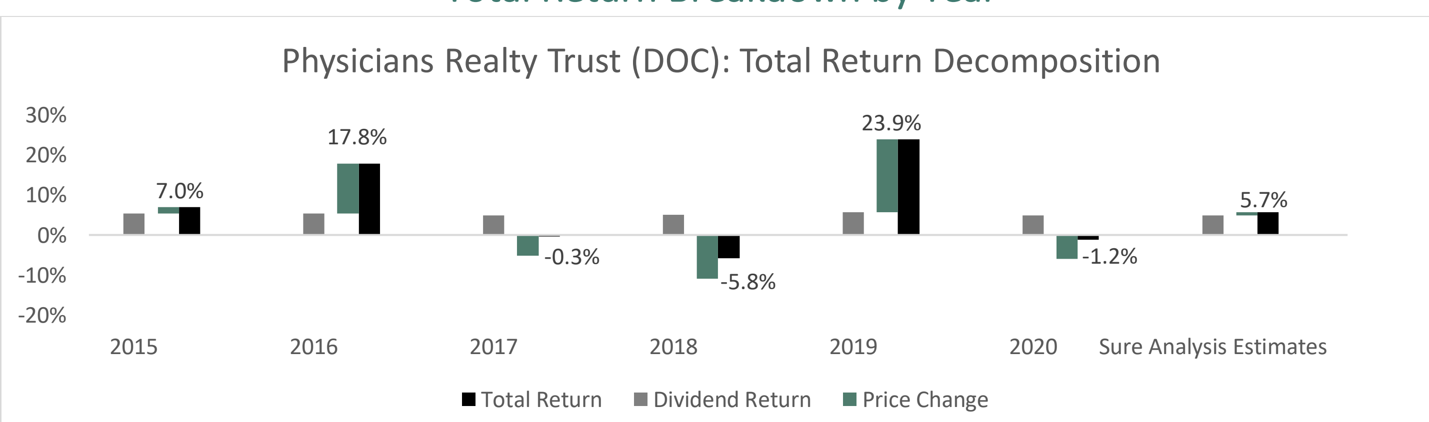
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with 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 fourth quarter results, Physicians Realty Trust is now expected to return 5.7% annually through 2026, up from our previous estimate of 4%. This projection stems from a 1.7% FFO growth rate and 5.4% dividend yield offset set by a slight headwind from multiple reversion. Physicians Realty Trust has weathered COVID-19 very successfully as all of its properties remain open as of the end of 2020. The trust collected nearly all rents owed to it as well. Income investors might find the 5%+ yield attractive, but Sure Dividend continues to rate shares as a hold due to projected returns. We have raised our five-year price target $1 to $18 due to estimates for funds-from-operations.

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%	-11.9%	-13.3%	-7.7%	9.4%	12.9%	11.4%	13.7%	18.4%
Free Cash Flow		3	3	1	12	54	116	157	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	82
Goodwill & Int. Ass.		7	6	31	73	205	301	459	452	390
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	0.09	0.37	0.71	0.89	0.93	0.93	0.84

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