



# LTC Properties (LTC)

Updated February 26<sup>th</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

|                             |      |  |      |                                  |           |
|-----------------------------|------|--|------|----------------------------------|-----------|
| <b>Current Price:</b>       | \$41 | <b>5 Year CAGR Estimate:</b>               | 9.2% | <b>Market Cap:</b>               | \$1.6 B   |
| <b>Fair Value Price:</b>    | \$45 | <b>5 Year Growth Estimate:</b>             | 3.0% | <b>Ex-Dividend Date:</b>         | 3/22/2021 |
| <b>% Fair Value:</b>        | 92%  | <b>5 Year Valuation Multiple Estimate:</b> | 1.7% | <b>Dividend Payment Date:</b>    | 3/31/2021 |
| <b>Dividend Yield:</b>      | 5.6% | <b>5 Year Price Target</b>                 | \$52 | <b>Years Of Dividend Growth:</b> | 0         |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | C    | <b>Last Dividend Increase:</b>   | 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 181 investments in 27 states with 29 operating partners and has a market capitalization of \$1.6 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 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.

In mid-February, LTC reported (2/18/21) financial results for the fourth quarter of fiscal 2020. Funds from operations (FFO) decreased -4% over the prior year's quarter but only due to an asset sale gain in the prior year's quarter. On the bright side, LTC collected 98% of its contractual rent and mortgage interest, including the obligations of Senior Lifestyle, which is under great financial stress but has improved its payments lately. LTC is facing a headwind due to the recession caused by the pandemic and thus it has not provided any guidance for 2021. Due to the pandemic, the turnaround is on hold right now but we believe that the worse is behind LTC.

## Growth on a Per-Share Basis

| Year                      | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021          | 2026          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>FFO</b>                | \$2.01 | \$2.26 | \$2.29 | \$2.55 | \$2.77 | \$3.06 | \$3.10 | \$3.06 | \$3.08 | \$2.99 | <b>\$3.00</b> | <b>\$3.48</b> |
| <b>DPS</b>                | \$1.68 | \$1.79 | \$1.91 | \$2.04 | \$2.07 | \$2.19 | \$2.28 | \$2.28 | \$2.28 | \$2.28 | <b>\$2.28</b> | <b>\$2.40</b> |
| <b>Shares<sup>1</sup></b> | 29.2   | 30.3   | 33.1   | 36.6   | 37.3   | 38.6   | 39.6   | 39.9   | 39.8   | 39.1   | <b>38.5</b>   | <b>45.0</b>   |

Thanks to the aforementioned favorable underlying fundamentals of the healthcare sector, LTC has grown its funds from operations at a 4.5% 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 four years, partly due to the bankruptcy of Senior Care. In addition, the REIT has been affected by the pandemic, but we expect this crisis to attenuate in the second half of this year thanks to the vaccination program underway. We continue to expect 3.0% growth in funds from operations over the next five years.

## Valuation Analysis

| Year              | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now         | 2026        |
|-------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/FFO</b> | 13.8 | 14.5 | 17.2 | 15.3 | 15.6 | 15.7 | 15.4 | 13.6 | 15.1 | 12.7 | <b>13.7</b> | <b>14.9</b> |
| <b>Avg. Yld.</b>  | 6.1% | 5.4% | 4.9% | 5.2% | 4.8% | 4.6% | 4.8% | 5.5% | 4.9% | 6.0% | <b>5.6%</b> | <b>4.6%</b> |

<sup>1</sup> In millions.

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LTC has traded at an average price-to-FFO ratio of 14.9 during the last decade. The stock has consistently traded around this valuation level in the last six years. Due to the coronavirus crisis, LTC is now trading at an FFO multiple of 13.7. If it trades at its average valuation level five years from now, it will enjoy a 1.7% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year          | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021         | 2026         |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| <b>Payout</b> | 83.6% | 79.2% | 83.4% | 80.0% | 74.7% | 71.6% | 73.5% | 74.5% | 74.0% | 76.3% | <b>76.0%</b> | <b>68.9%</b> |

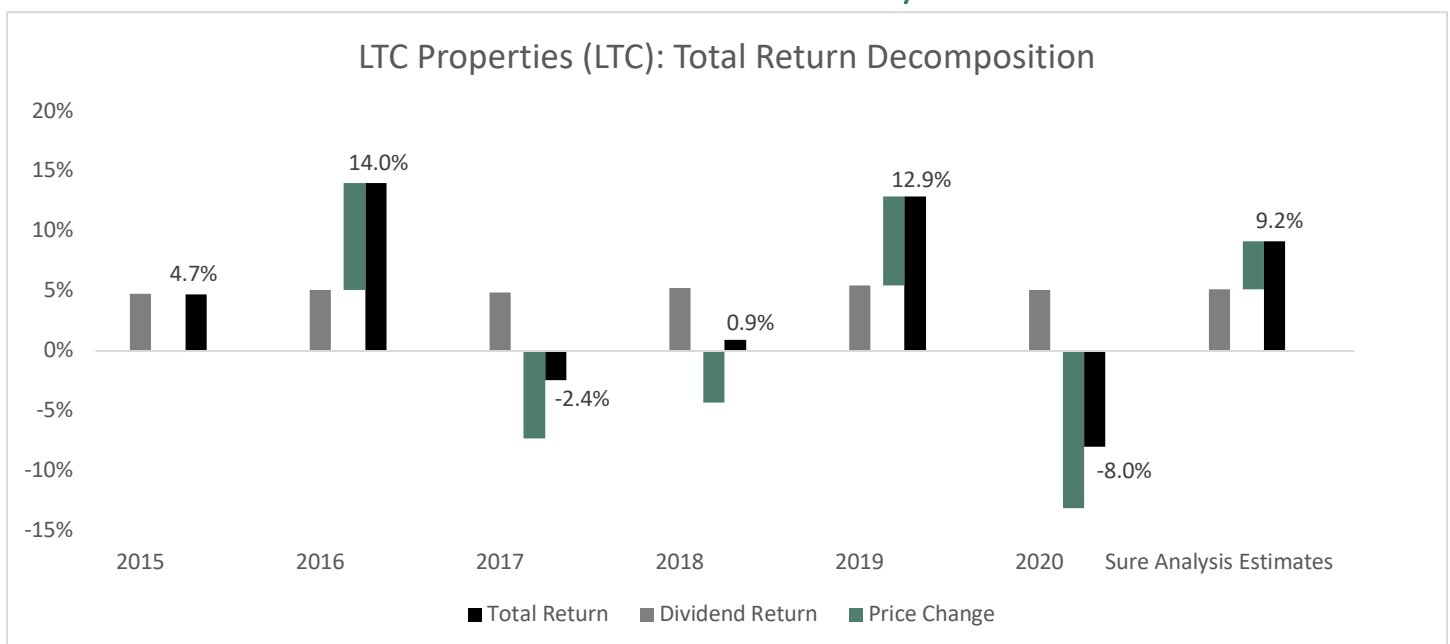
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by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

LTC is offering an attractive 5.6% dividend yield. Since 2011, it has raised its dividend at a 3.5% average annual rate. However, it has frozen its dividend in the last four 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 76% and the balance sheet is decent, with a debt to adjusted EBITDA ratio of 4.6x and an interest coverage ratio of 3.0. As a result, the dividend can be sustained if the pandemic begins to attenuate soon. The REIT has a smooth debt maturity schedule this year but it may be somewhat pressured in 2022, when 21% of its debt (\$138 million out of \$665 million) matures, particularly if the prevailing business conditions are not favorable in that year. Moreover, investors should be aware that the dividend will be at the risk of being cut if the pandemic extends beyond this year.

## Final Thoughts & Recommendation

LTC has failed to grow its funds from operations for four consecutive years. With that said, we expect the REIT to overcome the headwinds from the bankruptcy of its major customer and the pandemic and return to growth mode next year. As a result, the stock could offer a 9.2% average annual return over the next five years, mostly thanks to its 5.6% dividend. We thus maintain our buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 84    | 92    | 105   | 119   | 136   | 162   | 168   | 169   | 185   | 159   |
| <b>Gross Profit</b>     | 77    | 83    | 94    | 106   | 119   | 135   | 138   | 138   | 138   | 115   |
| <b>Gross Margin</b>     | 92.3% | 89.3% | 89.2% | 89.0% | 87.2% | 83.6% | 82.2% | 82.1% | 74.5% | 71.9% |
| <b>SG&amp;A Exp.</b>    | 10    | 11    | 12    | 12    | 15    | 17    | 18    | 19    | 18    | 20    |
| <b>D&amp;A Exp.</b>     | 20    | 22    | 25    | 26    | 29    | 36    | 38    | 38    | 39    | 39    |
| <b>Operating Profit</b> | 23.5% | 24.0% | 23.5% | 21.5% | 21.6% | 22.2% | 22.4% | 22.3% | 43.2% | 56    |
| <b>Operating Margin</b> | 49    | 50    | 56    | 68    | 73    | 81    | 83    | 82    | 80    | 35.0% |
| <b>Net Profit</b>       | 49    | 51    | 58    | 73    | 73    | 85    | 87    | 155   | 81    | 95    |
| <b>Net Margin</b>       | 58.1% | 54.4% | 52.9% | 57.5% | 53.5% | 50.2% | 49.5% | 48.3% | 43.5% | 59.8% |
| <b>Free Cash Flow</b>   | 70    | 77    | 87    | 96    | 102   | 106   | 105   | 116   | 122   | 116   |

## Balance Sheet Metrics

| Year                          | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| <b>Total Assets</b>           | 647  | 790  | 931  | 965  | 1275 | 1395 | 1466 | 1514 | 1514 | 1459 |
| <b>Cash &amp; Equivalents</b> | 4    | 7    | 7    | 25   | 13   | 8    | 5    | 3    | 4    | 8    |
| <b>Accounts Receivable</b>    | 24   | 27   | 30   | 33   | 43   | 55   | 64   | 74   | 46   | 24   |
| <b>Total Liabilities</b>      | 178  | 326  | 299  | 305  | 616  | 655  | 707  | 681  | 729  | 684  |
| <b>Long-Term Debt</b>         | 156  | 301  | 277  | 281  | 572  | 609  | 668  | 645  | 693  | 649  |
| <b>Shareholder's Equity</b>   | 428  | 425  | 594  | 622  | 659  | 740  | 755  | 825  | 777  | 767  |
| <b>D/E Ratio</b>              | 0.33 | 0.65 | 0.44 | 0.43 | 0.87 | 0.82 | 0.88 | 0.78 | 0.89 | 0.85 |

## Profitability & Per Share Metrics

| Year                    | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 8.2%  | 7.1%  | 6.7%  | 7.7%  | 6.5%  | 6.4%  | 6.1%  | 10.4% | 5.3%  | 6.4%  |
| <b>Return on Equity</b> | 13.0% | 12.0% | 11.4% | 12.1% | 11.4% | 12.2% | 11.7% | 19.6% | 10.1% | 12.3% |
| <b>ROIC</b>             | 8.4%  | 7.4%  | 6.9%  | 7.9%  | 6.7%  | 6.6%  | 6.3%  | 10.7% | 5.4%  | 6.6%  |
| <b>Shares Out.</b>      | 29.2  | 30.3  | 33.1  | 36.6  | 37.3  | 38.6  | 39.6  | 39.9  | 39.8  | 39.1  |
| <b>Revenue/Share</b>    | 2.86  | 3.05  | 3.17  | 3.25  | 3.65  | 4.19  | 4.24  | 4.23  | 4.66  | 4.06  |
| <b>FCF/Share</b>        | 2.41  | 2.54  | 2.63  | 2.61  | 2.74  | 2.74  | 2.66  | 2.90  | 3.08  | 2.96  |

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

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