Global Medical REIT Inc. (GMRE)

Updated May 17th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$14.25	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$890 M
Fair Value Price:	$13.80	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	06/24/2021[1]
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	07/09/2021
Dividend Yield:	5.8%	**5 Year Price Target**	$16.79	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	2.5%

Overview & Current Events

Global Medical REIT Inc. is a net-lease medical office REIT that acquires specialized healthcare facilities, which it leases to national healthcare systems and industry-leading physician groups. The trust's portfolio consists of gross investments in real estate worth around $1.2 billion. They comprise 90 facilities with an aggregate of 3.8 million leasable square feet (LSF) and an aggregate of $91.4 million worth of annualized base rent. Around 70% of the trust's LSF is of Medical Office Buildings (MOB), 15% is of Inpatient Rehab Facilities (IRF), 5% of surgical facilities, and the rest of other specialized facilities. The $890 million trust is based in Bethesda, Maryland.

On May 5th, 2021, Global Medical reported its Q1 results for the quarter ended March 31st, 2021. Rental revenues came in at $27.3 million, an increase of 26.6% year-over-year, reflecting the growth in the trust's portfolio. During the quarter, the trust completed four acquisitions with an aggregate of 120,032 LSF. Consequently, and amid cost efficiencies, AFFO grew by 40% to $13.55 million. On a per-share basis, it grew by 20%, to $0.24, due to the additional share issuances that occurred during this period to fund the portfolio's expansion.

At the end of the quarter, occupancy stood at 99.1%, the weighted average lease term for the trust's portfolio was 7.9 years, while the weighted average annual rental escalations were 2.1%. Subsequent to the quarter-end, the trust acquired five more properties with an aggregate of 188,016 LSF, while it considers 3 more properties under contract for which it is currently in due diligence period. We forecast FY2021 AFFO/share of $0.92.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/shr[2]	---	---	---	---	($0.88)	($0.03)	$0.54	$0.76	$0.75	$0.88	**$0.92**	***$1.12***
DPS	---	---	---	---	$1.02	$0.74	$0.80	$0.80	$0.80	$0.80	**$0.82**	***$0.86***
Shares[3]	---	---	---	---	0.3	9.3	19.6	22.0	33.9	46.3	**48.4**	***100.0***

Global Medical has been growing its healthcare property portfolio rapidly, enjoying robust cash flows and high-quality tenants. The trust's record occupancy and extended average lease period are able to sustain stable financials even under adverse conditions such as those caused by COVID-19 during 2020, a year of record AFFOs. We expect the main catalyst for future AFFO/share growth to be Global Medical's continuous acquisitions, through which the trust can achieve operational cost efficiencies and lower financing rates as its portfolio grows and creditors lower their demands. We have utilized AFFO/share annual growth expectations of 4% in the medium-term.

In terms of its dividend, combined with its preferred shares, the trust has been paying out more to shareholders than it has been earning over the past few years. This is most likely in order to attract investors amid the continuous share issuances that it constantly executes in order to grow its portfolio. This has been essential in keeping the share price as high as possible during such times. Eventually, the trust expects AFFO/share to catch up with the dividend, as it seems to be the case over the past couple of years. The 2.5% DPS increase during March certainly confirms that. That being said,

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[1] Estimated dates based on past dividend dates.
[2] Being REIT, AFFO/share is more meaningful metric than EPS. The trust reports high depreciation and amortization levels.
[3] Share count is in millions.

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.

we expect annualized DPS growth of around 1% in the medium term, as management should now allow for the payout ratio to grow more comfortable over time.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	---	---	---	17.0	12.5	15.3	14.2	***15.5***	***15.0***
Avg. Yld.	---	---	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	***5.8%***	***5.1%***

Global Medical's stock currently trades around 15.5 times our expected FY2021 AFFO/share. While the trust is growing swiftly, its high dividend as a financing attraction certainly slows down the per-share growth in both its future AFFO/share and DPS. As a result, the discount compared to its industry peers is well justified. The yield has remained at hefty levels for the same reason, nonetheless. We expect both the valuation multiple and the stock's yield to remain at relatively similar levels going forward due to Global Medical's predictable cash flows and expansionary strategy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

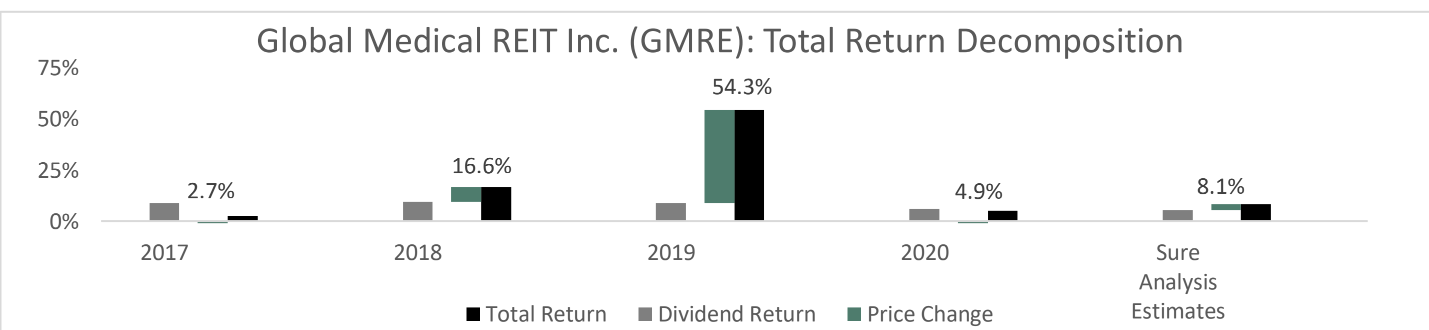
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	148%	105%	107%	**89%**	***77%***

While the trust has utilized a slightly risky strategy to grow its portfolio, which has resulted in displaying unsustainable payout ratios, the portfolio's expansion has now caused AFFOs to catch up to DPS. Considering the recent dividend increase and the trust's resilient performance during the pandemic, we believe that the REIT's dividend should be considered safe. Under a potential recession, we can see the trust being in a safer place than the rest of its real estate peers due to its creditworthy tenants and long average leases. No State accounts for more than 20% of its rental revenues, while no tenant accounts for more than 8.2% of its annualized base rent. Hence the trust enjoys adequate diversification qualities. Still, due to its small market cap and immature profile compared to its largest peers, the trust faces higher financing costs. Whether it is its hefty dividend (cost of equity) or its cost of debt, which currently stands at 5.38%, the trust is likely to be subject to lower profit margins until its portfolio matures. Further, we don't see any meaningful competitive advantages, while the REIT's short history as a publicly-traded trust is also something to be wary of.

Final Thoughts & Recommendation

Global Medical REIT is a niche healthcare real estate trust featuring robust rental revenues, satisfactory diversification, and an above-average dividend yield, which should remain covered. That being said, we expect its per-share metrics to advance only modestly in the medium-term. We forecast annualized returns of around 8.1% over the next few years, primarily powered by the stock's yield and humble per-share growth potential. Shares earn a Hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue				1	2	8	30	53	71	94
Gross Profit					2	8	28	49	65	83
Gross Margin				0.0%	96.1%	99.1%	93.9%	93.0%	91.6%	88.4%
SG&A Exp.				0	1	6	9	10	13	16
D&A Exp.				0	1	2	10	18	26	37
Operating Profit				0	1	0	10	22	27	31
Operating Margin				15.6%	26.0%	1.3%	32.5%	41.8%	38.6%	32.6%
Net Profit				(0)	(2)	(6)	(0)	13	9	(2)
Net Margin				-68.7%	-78.0%	-77.4%	-0.1%	25.4%	13.1%	-2.1%
Free Cash Flow				0	(32)	(153)	(240)	(159)	(220)	(184)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets				24	65	227	472	636	885	1,101
Cash & Equivalents				0	9	20	5	4	3	6
Accounts Receivable				0	-	0	1	3	5	6
Goodwill & Int. Ass.					-	7	29	36	59	80
Total Liabilities				23	65	72	213	336	425	643
Accounts Payable					1	1	2	4	5	7
Long-Term Debt				22	64	67	201	315	386	587
Shareholder's Equity				2	(0)	155	171	194	355	370
D/E Ratio				12.72	(461)	0.43	0.81	1.17	0.90	1.32

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				-1.8%	-3.6%	-4.3%	0.0%	2.4%	1.2%	-0.2%
Return on Equity				-20.8%	-203%	-8.2%	0.0%	7.4%	3.4%	-0.5%
ROIC				-1.8%	-3.7%	-4.5%	0.0%	2.5%	1.3%	-0.2%
Shares Out.					0.3	9.3	19.6	22.0	33.9	46.3
Revenue/Share				2.39	8.25	0.88	1.55	2.42	2.09	2.03
FCF/Share				0.52	(127)	(16.4)	(12.2)	(7.22)	(6.51)	(3.98)

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