LTC Properties (LTC)

Updated May 13th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$39	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$1.5 B
Fair Value Price:	$45	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	6/21/2021
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	6/30/2021
Dividend Yield:	5.8%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	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 180 investments in 27 states with 30 operating partners and has a market capitalization of $1.5 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 late April, LTC reported (4/29/21) financial results for the first quarter of fiscal 2021. Funds from operations (FFO) per share decreased -16% over last year's quarter, from $0.74 to $0.62, due to asset sale losses and lower rental income as a result of nonpayment of lease obligations of Senior Lifestyle and some rent deferrals. LTC is facing a headwind due to the recession caused by the pandemic, which has resulted in deferred payments from some tenants. As a result, LTC 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
FFO	$2.01	$2.26	$2.29	$2.55	$2.77	$3.06	$3.10	$3.06	$3.08	$2.99	***$3.00***	***$3.48***
DPS	$1.68	$1.79	$1.91	$2.04	$2.07	$2.19	$2.28	$2.28	$2.28	$2.28	***$2.28***	***$2.40***
Shares[1]	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9	39.8	39.1	***38.5***	***45.0***

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
Avg. P/FFO	13.8	14.5	17.2	15.3	15.6	15.7	15.4	13.6	15.1	12.7	***13.0***	***14.9***
Avg. Yld.	6.1%	5.4%	4.9%	5.2%	4.8%	4.6%	4.8%	5.5%	4.9%	6.0%	***5.8%***	***4.6%***

[1] 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.

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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 13.0. If it trades at its average valuation level five years from now, it will enjoy a 2.8% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	83.6%	79.2%	83.4%	80.0%	74.7%	71.6%	73.5%	74.5%	74.0%	76.3%	***76.0%***	***68.9%***

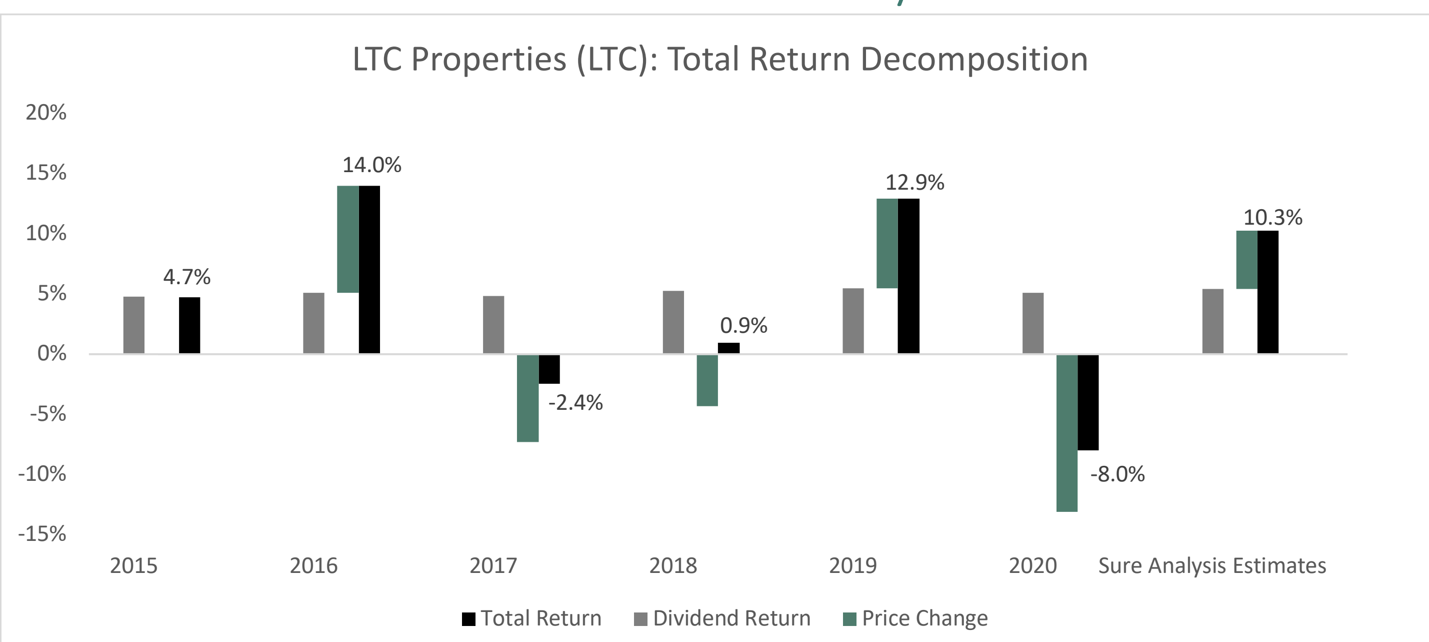
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by 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 5.8% 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 2.9. 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 next 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 10.3% average annual return over the next five years, mostly thanks to its 5.8% 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
Revenue	84	92	105	119	136	162	168	169	185	159
Gross Profit	77	83	94	106	119	135	138	138	138	115
Gross Margin	92.3%	89.3%	89.2%	89.0%	87.2%	83.6%	82.2%	82.1%	74.5%	71.9%
SG&A Exp.	10	11	12	12	15	17	18	19	18	20
D&A Exp.	20	22	25	26	29	36	38	38	39	39
Operating Profit	23.5%	24.0%	23.5%	21.5%	21.6%	22.2%	22.4%	22.3%	43.2%	56
Operating Margin	49	50	56	68	73	81	83	82	80	35.0%
Net Profit	49	51	58	73	73	85	87	155	81	95
Net Margin	58.1%	54.4%	52.9%	57.5%	53.5%	50.2%	49.5%	48.3%	43.5%	59.8%
Free Cash Flow	70	77	87	96	102	106	105	116	122	116

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	647	790	931	965	1275	1395	1466	1514	1514	1459
Cash & Equivalents	4	7	7	25	13	8	5	3	4	8
Accounts Receivable	24	27	30	33	43	55	64	74	46	24
Total Liabilities	178	326	299	305	616	655	707	681	729	684
Long-Term Debt	156	301	277	281	572	609	668	645	693	649
Shareholder's Equity	428	425	594	622	659	740	755	825	777	767
D/E Ratio	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
Return on Assets	8.2%	7.1%	6.7%	7.7%	6.5%	6.4%	6.1%	10.4%	5.3%	6.4%
Return on Equity	13.0%	12.0%	11.4%	12.1%	11.4%	12.2%	11.7%	19.6%	10.1%	12.3%
ROIC	8.4%	7.4%	6.9%	7.9%	6.7%	6.6%	6.3%	10.7%	5.4%	6.6%
Shares Out.	29.2	30.3	33.1	36.6	37.3	38.6	39.6	39.9	39.8	39.1
Revenue/Share	2.86	3.05	3.17	3.25	3.65	4.19	4.24	4.23	4.66	4.06
FCF/Share	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.