National Health Investors Inc (NHI)

Updated May 18th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$3.2 B
Fair Value Price:	$71	**5 Year Growth Estimate:**	4.5%	**Ex-Dividend Date[1]:**	06/29/2021
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date[1]:**	08/07/2021
Dividend Yield:	6.6%	**5 Year Price Target**	$88	**Years Of Dividend Growth:**	19
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	5.0%

Overview & Current Events

National Health Investors is an REIT focused on healthcare facilities. Some of the healthcare facilities NHI invests in are independent living facilities, senior-living campuses, and medical office buildings. NHI specializes in sale-leaseback, joint-venture, mortgage, and mezzanine financing. The company was incorporated in 1991 and is headquartered in Tennessee. National Health Investors has raised its dividend for 19 years, and in the past eleven years it was increased by at least 5% annually. This healthcare facility REIT has a market capitalization of $3.2 billion.

On December 31st, 2020, NHI had investments in 162 senior housing properties, 75 skilled nursing facilities, 3 hospitals, and 2 medical office buildings across 34 states run by 36 operating partners. During 2020, rental income was $307 million and made up 92% of income.

On May 10th, National Health Investors released first quarter results. Net income per share for the first quarter fell 43% to $0.78 compared to 1Q 2020. Normalized FFO per diluted common share was $1.24, an 8.8% decrease from the prior year quarter results of $1.36. Normalized FAD was $59.6 million, flat compared to the same quarter last year. The company collected over 94% of contractual cash due in the quarter.

At the end of first quarter, NHI had no outstanding amounts on its $550 million revolver, and had roughly $37 million in unrestricted cash and cash equivalents. They also have around $417 million available under the ATM program. Management has determined that certain tenants will need further loans and deferrals to come through the pandemic, and they plan to help these tenants push through to a more stable operating environment, which is possible due to NHI's prudent capital structure. The healthcare REIT will become leaner and stronger through lease restructurings, shedding under-performing assets, and partner with operators that are aligned with their goals.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFOPS	$2.75	$3.08	$3.43	$3.75	$4.10	$4.39	$4.75	$5.04	$5.10	$5.29	**$5.25**	**$6.54**
DPS	$2.70	$2.63	$3.12	$3.08	$3.40	$3.60	$3.80	$4.00	$4.20	$4.41	**$4.41**	**$5.63**
Shares[2]	27.8	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	**45.5**	**50.0**

National Healthcare Investors has been able to generate a stream of fairly predictable and consistent adjusted funds from operations (AFFO). In the last 9 years AFFO has grown by 7.5% on average, but this has slowed slightly to a 5-year AFFO growth rate of 5.2%. Shares outstanding have grown by around 5% annually over the long term, which is normal for an REIT. The number of shares being added is not outrageous but does not help grow AFFO per share. Increased investment activity through financing or purchasing more healthcare real estate, as well as improved collections, and improved occupancies (which have fallen and are expected to increase due to vaccinations) should see NHI continue to grow. We are forecasting 4.5% average annual AFFO growth over the intermediate term.

The corporation will pursue acquisitions and diversifications opportunistically, with the main focus on triple-net senior housing and skilled nursing. The company will further diversify across asset, tenant, and geography. We believe the

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[1] Estimate
[2] In millions

Disclosure: This analyst has a position in the security discussed in this research report.

target minimum of 5% annual dividend growth rate set by NHI management can be met. The company has paid special dividends a few times in the past, most recently in 2011 and 2013.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	16.3	16.5	18.0	16.6	15.8	16.2	16.0	14.4	15.7	12.1	**12.7**	**13.5**
Avg. Yld.	5.4%	5.0%	4.5%	4.8%	5.0%	4.9%	4.8%	5.4%	5.1%	6.9%	**6.6%**	**6.4%**

National Health Investors has traded at a P/E ratio of 15.8 on average in the past 10 years, and 14.9 on average in the past 5 years. While shares trade at 12.7 times estimated 2021 AFFO, we believe fair value is closer to 13.5 times AFFO, which would result in a 1.3% annual gain due to valuation expansion. The dividend yield would fall slightly as a result of a higher share price, but we expect it will remain above 5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	98%	85%	91%	82%	83%	82%	80%	79%	82%	83%	**84%**	**86%**

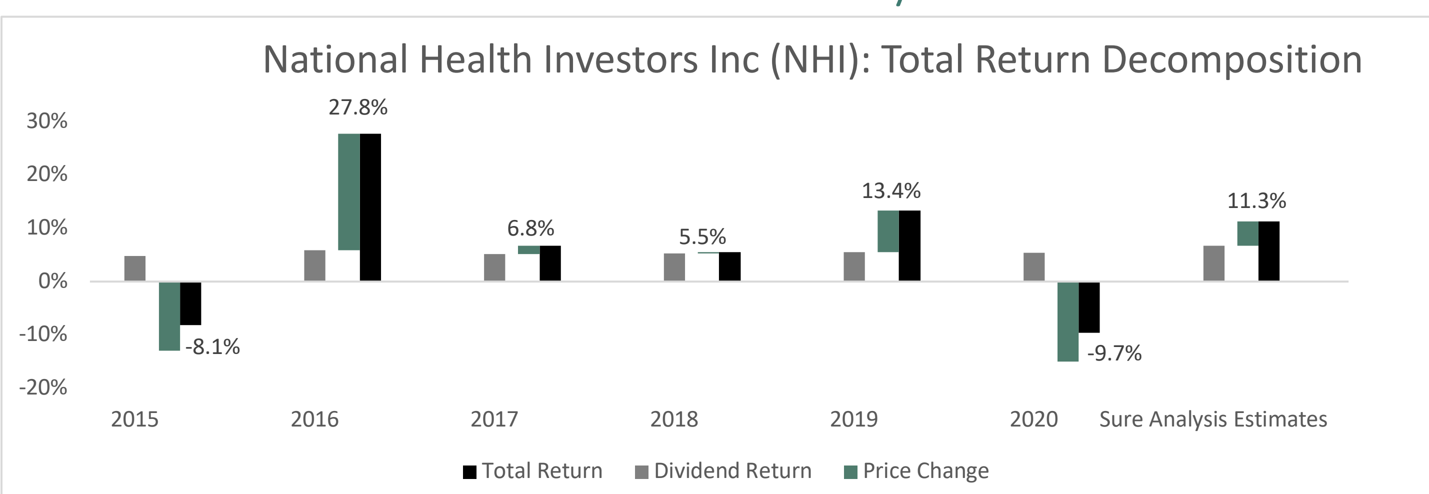
While NHI does not have a strong competitive advantage over other healthcare REITs, the corporation believes that they have an advantage in accessing debt markets due to a strong balance sheet. The company is highly diversified across tenant, geography and asset type which is also advantageous. During the great recession, share price did not fall as much as the overall market, and in fact, FFO per share grew from 2008 to 2010.

Target leverage is set at 4x – 5x Net Debt to Adjusted Annualized EBITDA, and the company maintains a 60/40 equity/debt funding mix. In the year 2020, NHI was within its target leverage range at 4.8x, however this is the highest it has been at least in the past 5 years. The payout ratio of 83% in 2020 is considered quite safe by REIT standards. The dividend appears to be well covered, and we expect it will continue to grow.

Final Thoughts & Recommendation

We are impressed with the consistency of National Health Investors' results and expect that the company will be able to continue delivering AFFO growth in-range with historic returns, around 4.5%. The corporation trades below our estimated fair value, and has expected total returns of 11.3%, half of which come from the dividend of 6.6%. Although the margin of safety is not strong, we rate NHI a buy as total expected returns are particularly good.

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	93	118	178	229	248	279	295	318	333
Gross Profit	83	93	117	177	228	247	278	293	311	323
Gross Margin	99.0%	99.2%	99.6%	99.7%	99.6%	99.6%	99.7%	99.6%	97.7%	96.9%
SG&A Exp.	8	9	10	9	11	10	13	13	14	15
D&A Exp.	13	17	21	41	57	63	67	71	77	83
Operating Profit	63	69	87	130	164	178	198	209	220	225
Operating Margin	75.6%	74.2%	74.0%	73.0%	71.6%	71.5%	71.0%	71.0%	69.2%	67.6%
Net Profit	81	91	106	102	149	152	159	154	160	185
Net Margin	96.9%	97.2%	90.1%	57.2%	65.0%	61.0%	57.2%	52.4%	50.4%	55.6%
Free Cash Flow	77	86	104	126	164	177	198	208	241	232

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	580	706	1,456	1,983	2,133	2,404	2,546	2,751	3,042	3,120
Cash & Equivalents	16	9	11	3	13	5	3	5	5	43
Accounts Receivable	9	14	21	39	63	82	100	112	89	98
Total Liabilities	136	238	679	933	991	1,194	1,224	1,361	1,544	1,598
Long-Term Debt	97	203	617	863	914	1,116	1,145	1,282	1,440	1,499
Shareholder's Equity	443	457	767	1,040	1,133	1,210	1,322	1,390	1,498	1,512
D/E Ratio	0.22	0.44	0.81	0.83	0.81	0.92	0.87	0.92	0.96	0.99

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	14.9%	14.1%	9.8%	5.9%	7.2%	6.7%	6.4%	5.8%	5.5%	6.0%
Return on Equity	18.3%	20.1%	17.4%	11.2%	13.7%	12.9%	12.6%	11.4%	11.1%	12.3%
ROIC	15.9%	15.0%	10.3%	6.1%	7.5%	6.9%	6.6%	6.0%	5.7%	6.2%
Shares Out.	27.8	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7
Revenue/Share	3.01	3.35	4.15	5.31	6.08	6.35	6.77	7.00	7.28	7.45
FCF/Share	2.77	3.10	3.67	3.77	4.37	4.51	4.81	4.94	5.51	5.19

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