Community Healthcare Trust Inc (CHCT)

Updated August 22nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	7.1%	**Market Cap:**	$1.1 B
Fair Value Price:	$44	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	11/15/2021
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date[1]:**	11/27/2021
Dividend Yield:	3.6%	**5 Year Price Target**	$58	**Years Of Dividend Growth:**	5
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	0.6%

Overview & Current Events

Community Healthcare Trust is an REIT which owns income-producing real estate properties linked to the healthcare sector, such as physician offices, specialty centers, behavioral facilities, inpatient rehabilitation facilities, and medical office buildings, in the trust's target sub-markets within the United States. The Trust owns 149 properties in 33 states, totaling 3.3 million square feet with a value of roughly $814 million. Community Healthcare Trust trades on the NYSE under the ticker symbol CHCT and is headquartered in Franklin, Tennessee. CHCT has a market capitalization of $1.1 billion.

On August 3rd, Community Healthcare Trust released second quarter results. Net income per share for the quarter increased 16% to $0.22 from $0.19. Funds from operations (FFO) per share grew 9.8% year-over-year to $0.56. Adjusted FFO per share rose 11.5% to $0.58.

During the quarter, Community Healthcare acquired two real estate properties for $9.5 million combined. The acquired properties were 89.6% leased with lease expirations through 2028. Also, CHCT issued 247,964 shares of common stock under their ATM program at an average sales price of $48.87 per share for net proceeds of $11.9 million.

Following the second quarter, CHCT acquired one property for $3.7 million. The property was roughly 100% leased with lease expirations through 2026. Additionally, the trust has another two properties under definitive purchase agreements, with a purchase price of roughly $8.5 million and expected returns of 9.2%.

The board of directors passed a 0.6% increase to the quarterly dividend to $0.4325 per share, or an annualized rate of $1.73 per share. CHCT has increased its dividend every quarter since their IPO.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS						$1.41	$1.41	$1.53	$1.67	$2.03	***$2.24***	***$3.00***
DPS						$1.53	$1.57	$1.61	$1.65	$1.69	***$1.73***	***$1.91***
Shares[2]						11.3	14.8	17.7	18.7	21.6	***23.0***	***30.0***

Community HealthCare Trust was made public in 2016, and so there exists only four years of financial results from which to base future estimates off. In the four-year period from 2016 to 2020, CHCT grew funds from operations by 9.5% annually, which is quite strong. Amid the COVID pandemic, the trust continued growing. We expect that the Trust can continue compounding FFO at roughly 6.0% from here on out.

The trust will grow their healthcare property portfolio through acquisitions of non-urban healthcare facilities, which provide stable revenue growth and long-term cash flows. CHCT avoids urban properties to avoid the competition from other REITs, which increases their potential for more attractive risk-adjusted returns. The trust acquires primarily individual properties worth between $5 million and $30 million. Healthcare -related real estate rents and valuations are generally more stable than other property types due to favorable demographic trends and the rising demand for healthcare, regardless of the economic climate.

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[1] Estimate

[2] In millions

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The trust's network of relationships in the healthcare market has allowed for CHCT to acquire healthcare properties in target markets from third-party owners of existing healthcare facilities, physician owners and with healthcare providers through sale/leaseback transactions.

Existing shareholders can expect to be diluted over the long-term, as CHCT has increased their outstanding shares by 15.0% annually over the trailing five years since the IPO. Despite this increasing number of shares, FFO growth still came in strong over that period, so CHCT appears to be making good investments.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO						14.5	18.0	18.4	23.7	21.5	**21.4**	***19.5***
Avg. Yld.						6.8%	6.1%	5.7%	4.2%	3.9%	**3.6%**	***3.3%***

Since IPO, Community Healthcare has traded at an average P/FFO ratio of 19.2 times. The average P/FFO has trended upwards since 2016, and today we rate fair value to be roughly 19.5 times FFO. Thus, we believe shares today are just slightly overvalued to the tune of 1.9% in valuation losses annually. The 3.6% yield today is a fair bit lower than the average yield of 5.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout						108%	111%	105%	99%	83%	***77%***	***64%***

The trust's payout started off in dangerous territory above 100% of funds from operations. Still, the trust kept on growing the dividend every single quarter. As FFO grew over time, the payout ratio declined to fairer levels. The 83% payout ratio of 2020 was when the trust began covering the dividend with FFO, and it appears the payout ratio will continue to moderate as we estimate FFO to outgrow the dividend.

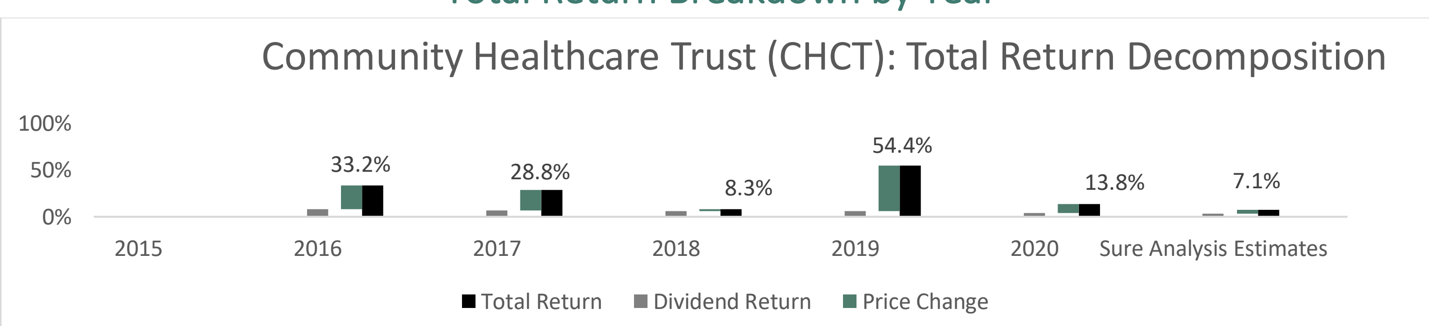
Community Healthcare is somewhat recession resistant, as it owns properties which must operate in both good and bad financial times, but this does not completely prevent the threat of partners and tenants facing financial difficulties.

CHCT's competitive advantage lies in its management's strong network of relationships to take advantage of in making attractive acquisitions and its focus on non-urban healthcare properties which result in higher risk-adjusted returns, but we would only call this a moderately strong advantage amongst its peers.

Final Thoughts & Recommendation

Community Healthcare has a short track record of financial results; however it has grown funds from operations in this time quite strongly. Additionally, the trust is dedicated to the dividend which has increased every quarter since IPO. We estimate that CHCT trades 10% above fair value, but offers decent 7.1% in total returns, thus we rate shares a Hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue					9	25	37	49	61	76
Gross Profit					7	20	29	39	49	62
Gross Margin					76.7%	81.2%	76.7%	79.5%	79.9%	82.0%
SG&A Exp.					2	3	4	6	8	9
D&A Exp.					5	13	18	20	23	26
Operating Profit					(1)	4	7	13	19	28
Operating Margin					-13.1%	15.4%	18.5%	27.7%	30.7%	36.9%
Net Profit					(1)	3	4	4	8	19
Net Margin					-16.9%	10.8%	9.4%	9.1%	13.8%	25.2%
Free Cash Flow					2	13	21	20	28	41
Income Tax						-	(0)	(2)	1	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets					143	252	386	427	563	668
Cash & Equivalents					2	2	2	2	2	2
Accounts Receivable					1	3	5	5	8	10
Goodwill & Intang.					0	0	-	0	0	1
Total Liabilities					21	58	102	155	209	238
Long-Term Debt					17	51	93	148	194	212
Shareholder's Equity					122	194	283	272	353	430
D/E Ratio					0.14	0.26	0.33	0.54	0.55	0.49

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						1.4%	1.1%	1.1%	1.7%	3.1%
Return on Equity					-2.4%	1.7%	1.5%	1.6%	2.7%	4.9%
ROIC						1.4%	1.1%	1.1%	1.7%	3.2%
Shares Out.					11.3	14.8	17.7	18.7	21.6	11.3
Revenue/Share					1.83	2.23	2.52	2.75	3.26	3.51
FCF/Share					0.45	1.18	1.42	1.13	1.50	1.92

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