Global Medical REIT Inc. (GMRE)

Updated August 9th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$15.17	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$973 M
Fair Value Price:	$14.10	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/23/2021[1]
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	10/08/2021
Dividend Yield:	5.4%	**5 Year Price Target**	$18.00	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**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 company's portfolio consists of gross investments in real estate worth around $1.2 billion. They comprise 97 facilities with an aggregate of 4.1 million leasable square feet (LSF) and an aggregate of $96.8 million worth of annualized base rent. Around 64% of the company's LSF is of Medical Office Buildings (MOB), 19.2% is of Inpatient Rehab Facilities (IRF), 6.8% of surgical facilities, and the rest 10% of other specialized facilities. The $973 million company is based in Bethesda, Maryland.

On August 3rd, 2021, Global Medical reported its Q2 results for the quarter ended June 30th, 2021. Rental revenues came in at $28.26 million, an increase of 28.26% year-over-year, reflecting the growth in the company's portfolio, comprising its 11 acquisitions year-to-date.

Specifically, during Q2, the company completed seven acquisitions with an aggregate of 234,173 LSF. Consequently, and amid cost efficiencies, AFFO grew by 45.1% to $14.99 million. On a per-share basis, AFFO grew by 9.52%, to $0.23, 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% (constant QoQ), the weighted average lease term for the REIT's portfolio was 7.5 years, while the weighted average annual rental escalations were 2.1%. Subsequent to the quarter-end, the company acquired two more properties with an aggregate of 77,693 LSF, while it considers 3 more properties under contract for which it is currently in due diligence period. Accordingly, we slightly raise our FY2021 AFFO/share estimate from $0.92 to $0.94 to reflect Global Medical's most recent results.

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	**$0.94**	***$1.20***
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	**56.9**	***100.0***

Global Medical has been growing its healthcare property portfolio rapidly, enjoying robust cash flows and high-quality tenants. The company'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 company can achieve operational cost efficiencies and lower financing rates as its portfolio grows and creditors lower their demands. We have hiked our AFFO/share annual growth expectations from 4% to 5% in the medium term.

In terms of its dividend, combined with its preferred shares, the company has been paying out more to shareholders than it has been earning over the past few years. This is most likely to attract investors amid the continuous share issuances that it constantly executes to grow its portfolio. This has been essential in keeping the share price as high as

[1] Estimated dates based on past dividend dates.
[2] Being a 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.

possible during such times. Eventually, Global Medical expected AFFO/share to catch up with the dividend, as it seems to have been the case over the past couple of years. The 2.5% DPS increase during March certainly confirms that. That being said, 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	***16.1***	***15.0***
Avg. Yld.	---	---	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	***5.4%***	***4.8%***

Global Medical's stock currently trades around 16.1 times our expected FY2021 AFFO/share. While the REIT 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. We expect the valuation multiple to remain near its historical average of around 15. We also expect the stock's yield to be lightly compressed going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

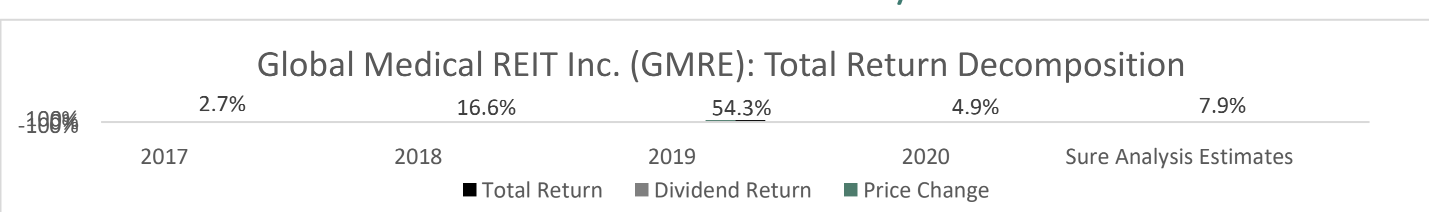
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	148%	105%	107%	**87%**	***72%***

While Global Medical has utilized a slightly risky strategy to grow its portfolio, resulting in displaying unsustainable payout ratios, the portfolio's expansion has caused AFFOs to catch up to DPS. Considering the recent dividend increase and the company's resilient performance during the pandemic, we believe that REIT's dividend should be considered safe. Under a potential recession, we can see the company 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 20.2% of its rental revenues, while no tenant accounts for more than 7.3% of its annualized base rent. Hence the company enjoys adequate diversification qualities. Still, due to its small market cap and immature profile compared to its largest peers, the company faces higher financing costs. Whether it is its hefty dividend (cost of equity) or its (admittedly improved) cost of debt, which currently stands at 3.09%, the company 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 company 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 7.9% over the next few years, primarily powered by the stock's yield and humble per-share growth potential, offset by modest valuation headwinds. 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.