



# National Health Investors Inc (NHI)

Updated August 10<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$63	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$2.9 B
<b>Fair Value Price:</b>	\$63	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	09/29/2021
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.2%	<b>Dividend Payment Date<sup>1</sup>:</b>	11/05/2021
<b>Dividend Yield:</b>	5.7%	<b>5 Year Price Target</b>	\$73	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	-18%

## 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 \$2.9 billion.

On December 31<sup>st</sup>, 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 August 9<sup>th</sup>, National Health Investors released second quarter results. Net income per share for the second quarter fell 14.1% compared to 2Q 2020 to \$0.85. Normalized FFO per diluted common share was \$1.16, a 20.5% decrease from the prior year quarter results of \$1.46. Normalized FAD was \$52.8 million, a 13.3% decrease from the same quarter last year. The company collected 87.3% of contractual cash due in the quarter, with the remaining balances deferred. The largest is the 8.0% deferrals related to Bickford Senior Living. These problems have led to a significant 18% decrease to the quarterly dividend, effectively halting NHI's nearly two decade span of consecutive dividend increases. The company has sold or announced the sale of assets at Bickford and other underperforming properties to optimize the portfolio. So far, the company has announced \$220 million in asset sales, with a goal of \$250 million to \$400 million in 2021.

At the end of first quarter, NHI had \$25 million outstanding 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.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>AFFOPS</b>	\$2.75	\$3.08	\$3.43	\$3.75	\$4.10	\$4.39	\$4.75	\$5.04	\$5.10	\$5.29	<b>\$4.82</b>	<b>\$5.59</b>
<b>DPS</b>	\$2.70	\$2.63	\$3.12	\$3.08	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.41	<b>\$3.60</b>	<b>\$3.78</b>
<b>Shares<sup>2</sup></b>	27.8	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	<b>45.5</b>	<b>50.0</b>

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 and the sales of non-performing assets) should see NHI continue to grow. We are forecasting 3% average annual AFFO growth over the intermediate term.

<sup>1</sup> Estimate

<sup>2</sup> In millions

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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. The company has paid special dividends a few times in the past, most recently in 2011 and 2013. With the 2021 dividend cut, we estimate that NHI will potentially resume growing the dividend at no more than 1% to maintain flexibility in the following years.

## 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	13.2	13.0
Avg. Yld.	5.4%	5.0%	4.5%	4.8%	5.0%	4.9%	4.8%	5.4%	5.1%	6.9%	5.7%	5.2%

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 13.2 times estimated 2021 AFFO, we believe fair value is closer to 13.0 times AFFO, which would result in a 0.2% annual drag due to valuation contraction. 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%	75%	68%

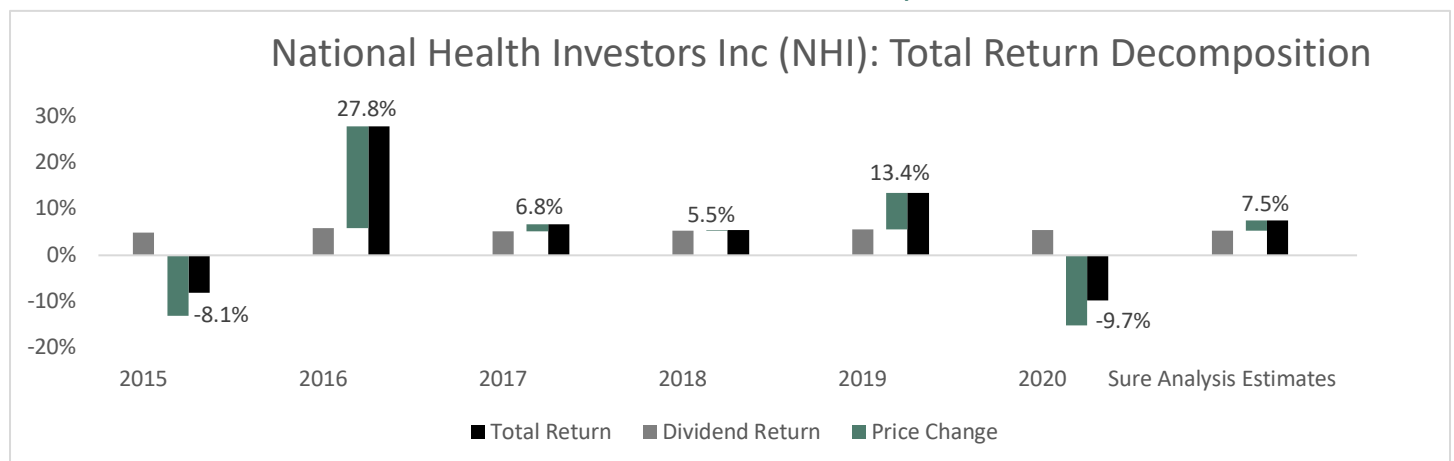
While NHI does not have a strong competitive advantage over other healthcare REITs, the corporation believes that they have an advantage in accessing debt markets due to a strong balance sheet. The company is highly diversified across tenant, geography and asset type which is also advantageous. During 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. While the payout ratio appeared to be stable in the last twelve months, NHI has opted to slash the dividend, thus we would not count on it to consistently grow the dividend from here on out.

## Final Thoughts & Recommendation

While National Health Investors' have a history of performing well, drops in occupancy, deferrals, and problems with specific, large partners weighs on the company today. The corporation trades within our estimated fair value, and has expected total returns of 7.5%, the majority of which come from the dividend of 5.7%. We rate NHI a Hold here.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	84	93	118	178	229	248	279	295	318	333
<b>Gross Profit</b>	83	93	117	177	228	247	278	293	311	323
<b>Gross Margin</b>	99.0%	99.2%	99.6%	99.7%	99.6%	99.6%	99.7%	99.6%	97.7%	96.9%
<b>SG&amp;A Exp.</b>	8	9	10	9	11	10	13	13	14	15
<b>D&amp;A Exp.</b>	13	17	21	41	57	63	67	71	77	83
<b>Operating Profit</b>	63	69	87	130	164	178	198	209	220	225
<b>Operating Margin</b>	75.6%	74.2%	74.0%	73.0%	71.6%	71.5%	71.0%	71.0%	69.2%	67.6%
<b>Net Profit</b>	81	91	106	102	149	152	159	154	160	185
<b>Net Margin</b>	96.9%	97.2%	90.1%	57.2%	65.0%	61.0%	57.2%	52.4%	50.4%	55.6%
<b>Free Cash Flow</b>	77	86	104	126	164	177	198	208	241	232

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	580	706	1,456	1,983	2,133	2,404	2,546	2,751	3,042	3,120
<b>Cash &amp; Equivalents</b>	16	9	11	3	13	5	3	5	5	43
<b>Accounts Receivable</b>	9	14	21	39	63	82	100	112	89	98
<b>Total Liabilities</b>	136	238	679	933	991	1,194	1,224	1,361	1,544	1,598
<b>Long-Term Debt</b>	97	203	617	863	914	1,116	1,145	1,282	1,440	1,499
<b>Shareholder's Equity</b>	443	457	767	1,040	1,133	1,210	1,322	1,390	1,498	1,512
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	14.9%	14.1%	9.8%	5.9%	7.2%	6.7%	6.4%	5.8%	5.5%	6.0%
<b>Return on Equity</b>	18.3%	20.1%	17.4%	11.2%	13.7%	12.9%	12.6%	11.4%	11.1%	12.3%
<b>ROIC</b>	15.9%	15.0%	10.3%	6.1%	7.5%	6.9%	6.6%	6.0%	5.7%	6.2%
<b>Shares Out.</b>	27.8	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7
<b>Revenue/Share</b>	3.01	3.35	4.15	5.31	6.08	6.35	6.77	7.00	7.28	7.45
<b>FCF/Share</b>	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.

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