



# Omega Healthcare Investors Inc. (OHI)

Updated August 16<sup>th</sup>, 2021, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$35	<b>5 Year CAGR Estimate:</b>	10.4%	<b>Market Cap:</b>	\$8.6 B
<b>Fair Value Price:</b>	\$40	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	10/29/21 <sup>1</sup>
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.5%	<b>Dividend Payment Date:</b>	11/14/21
<b>Dividend Yield:</b>	7.7%	<b>5 Year Price Target</b>	\$44	<b>Years Of Dividend Growth:</b>	18
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	1.5%

## Overview & Current Events

Omega Healthcare Investors (OHI) is a healthcare REIT that generates over 80% of its revenues from skilled nursing facilities, and the remainder of its revenues from senior housing developments. Omega has a market capitalization of \$8.6 billion and was founded in 1992. The trust generates more than \$940 million of annual revenue.

Omega reported second quarter earnings on August 2<sup>nd</sup>, 2021, and results came in strongly against expectations for both revenue and earnings. FFO-per-share came to 85 cents, beating consensus by two cents. Revenue was up fractionally to \$257 million but was \$21 million better than expectations.

The trust implemented a new at-the-market share offering program that will be worth up to \$1 billion, continuing its tradition of raising capital with new common shares. In addition, the trust financed a total of eight facilities in Ohio with \$72.4 million in mortgages with an initial rate of 10.5% annually.

Total expenses were \$175 million versus \$168 million a year ago, but was down from \$191 million in this year's Q1, which helped improve margins sequentially. The trust collected 98% of contractual rent and mortgage payments for July, and 98% for Q2, as well as 99% for Q1.

We're now estimating \$3.30 in FFO-per-share for this year following Q2 results that saw strong rent collection and Omega continuing its effective capital recycling.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>FFO</b>	\$1.89	\$2.19	\$2.53	\$2.61	\$2.81	\$3.07	\$3.30	\$3.04	\$2.88	\$3.23	<b>\$3.30</b>	<b>\$3.64</b>
<b>DPS</b>	\$1.55	\$1.69	\$1.86	\$2.02	\$2.18	\$2.36	\$2.54	\$2.64	\$2.65	\$2.68	<b>\$2.68</b>	<b>\$2.82</b>
<b>Shares<sup>2</sup></b>	102	108	118	127	181	202	207	210	222	237	<b>245</b>	<b>290</b>

Omega benefits from some favorable trends. The number of elderly people in need of healthcare is expected to grow at a fast pace over the next decade. In addition, the trend is for increasing healthcare spending in the U.S. Omega will see only a small portion of its leases expire over the next decade. Moreover, it has no material debt maturities until 2022. Therefore, the REIT is likely to enjoy reliable free cash flows in the upcoming years, without any shocks from debt maturities. However, recent results have caused us to expect growth of just 2% annually.

During the last decade, Omega has grown its FFO at a 5.5% average annual rate. However, we've reduced our estimate because revenue has come in weaker than expected, and expenses have risen, Q2 results notwithstanding. Further, the trust's FFO volatility has seen ups and downs recently, and while we see the trust's acquisitions as favorable over the long-term, growth hasn't materialized in the way we thought it would.

Omega's dividend yield remained strong throughout 2020, which many REITs were not able to replicate.

<sup>1</sup> Estimated date

<sup>2</sup> Share count 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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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/FFO	10.2	10.9	11.8	15.0	12.4	10.2	12.8	11.6	13.4	10.3	<b>10.6</b>	<b>12.0</b>
Avg. Yld.	7.7%	7.6%	6.1%	5.7%	5.9%	7.1%	8.1%	7.5%	6.8%	8.1%	<b>7.7%</b>	<b>6.4%</b>

Omega has traded at a 10-year average P/FFO ratio of ~12. Today shares trade at 10.6 times this year's FFO-per-share estimate. We see fair value at 12 times FFO, meaning the stock is below our estimate of fair value, implying a small tailwind from the valuation in the coming years. The yield remains strong at 7.7% but could decline if the valuation normalizes. We note that Omega hasn't raised its payout for eight quarters.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	82%	77%	74%	77%	78%	77%	118%	87%	92%	83%	<b>81%</b>	<b>77%</b>

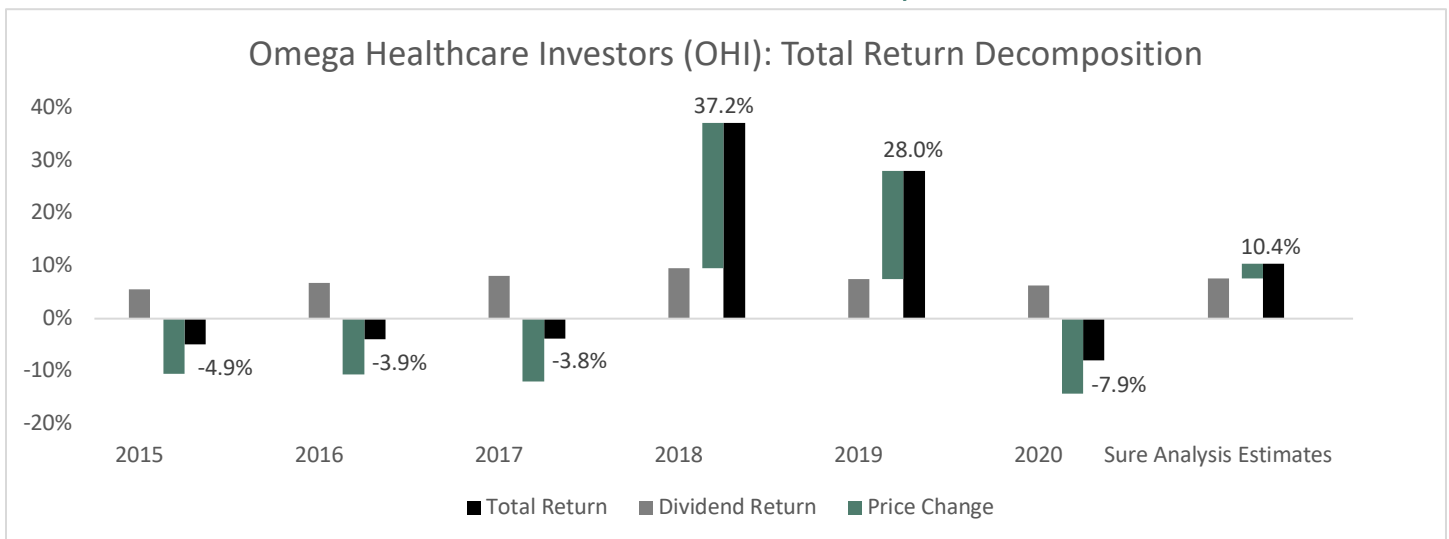
The healthcare sector is much less cyclical during recessions than other sectors of the economy. During the Great Recession, Omega saw its FFO-per-share decrease only -3%. It also has an exceptional dividend growth record. The payout ratio is quite high, but that is typical for a REIT, and the dividend appears secure, provided the company's FFO continues to grow. We think raises will be quite small for the foreseeable future given the combination of unreliable FFO growth and the already-high payout ratio. At this point, we don't see cause for a dividend cut.

Competitive advantages are difficult to come by for REITs, but Omega's focus on long-term care for the elderly is attractive given the number of people that will fall into this group in the coming years. We think Omega will hold up well during future recessions.

## Final Thoughts & Recommendation

Omega has a high dividend yield of 7.7%, making the stock attractive for income investors. Total return potential comes in at 10.4% per annum, which means we are reiterating the stock at a buy rating. Omega seems to be recovering from the crisis quickly, and its long-term fundamentals remain very much intact. Omega is trading below our estimate of fair value and has a terrific yield; the only question left is how much growth the trust can produce, although we note that Q2 results were quite strong, particularly for expense management.

## 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>	292	350	419	505	744	901	908	882	929	892
<b>SG&amp;A Exp.</b>	19	21	22	26	39	46	48	64	58	58
<b>D&amp;A Exp.</b>	100	113	129	123	211	267	288	281	302	---
<b>Operating Profit</b>	165	216	266	353	486	578	559	530	554	452
<b>Operating Margin</b>	56.6%	61.7%	63.6%	69.9%	65.4%	64.2%	61.5%	60.1%	59.7%	50.7%
<b>Net Profit</b>	53	121	173	221	225	366	100	282	341	159
<b>Net Margin</b>	18.0%	34.4%	41.2%	43.8%	30.2%	40.7%	11.1%	31.9%	36.7%	17.9%
<b>Free Cash Flow</b>	170	208	280	338	449	625	578	499	554	---

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	2557	2982	3462	3922	7990	8949	8773	8591	9796	9497
<b>Cash &amp; Equivalents</b>	0	2	3	4	5	94	86	10	24	164
<b>Accounts Receivable</b>	101	122	143	162	195	231	276	336	395	10
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	---	646	643	645	644	644	652
<b>Total Liabilities</b>	1679	1971	2162	2520	3889	4737	4885	4826	5460	5461
<b>Long-Term Debt</b>	1551	1825	2024	2379	3540	4367	4572	4541	5136	5169
<b>Shareholder's Equity</b>	878	1011	1300	1401	3738	3859	3555	3444	4135	3842
<b>D/E Ratio</b>	1.77	1.80	1.56	1.70	0.95	1.13	1.29	1.32	1.24	1.35

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.2%	4.4%	5.4%	6.0%	3.8%	4.3%	1.1%	3.2%	3.7%	1.7%
<b>Return on Equity</b>	5.9%	12.8%	14.9%	16.4%	8.7%	9.6%	2.7%	8.0%	9.0%	4.0%
<b>ROIC</b>	2.3%	4.6%	5.6%	6.2%	3.9%	4.5%	1.2%	3.4%	3.8%	1.7%
<b>Shares Out.</b>	102	108	118	127	181	202	207	210	222	237
<b>Revenue/Share</b>	2.86	3.24	3.55	3.97	4.12	4.47	4.39	4.20	4.18	3.92
<b>FCF/Share</b>	1.66	1.93	2.37	2.65	2.49	3.10	2.79	2.38	2.49	---

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

## Disclaimer

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