Physicians Realty Trust (DOC)

Updated November 6th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	2.9%	**Market Cap:**	$4.2 B
Fair Value Price:	$16	**5 Year Growth Estimate:**	1.7%	**Ex-Dividend Date:**	1/4/2022[1]
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	1/20/2022
Dividend Yield:	4.8%	**5 Year Price Target**	$17	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

Physicians Realty Trust was organized in April of 2013. The real estate investment trust, based in Milwaukee, Wisconsin, acquires, develops, owns and manage healthcare properties. These properties are leased to physicians, hospital and healthcare delivery systems. The trust's portfolio of 269 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust generates annual revenues in excess of $460 million.

Physicians Realty Trust announced financial results for the third quarter on 11/5/2021. For the quarter, revenue grew 5.2% to $115.3 million, $1.28 above estimates. Funds-from-operation of $0.26 matched the prior year's result and was in-line with expectations.

As with prior quarters, the COVID-19 pandemic had minimal impact on the trust's results. Medical Office Buildings, which comprise 94% of net leasable square footage, had same-store cash NOI growth of 2.5%. The portfolio was 95% leased at the end of the third quarter, down 100 basis points sequentially. The trust had new investments of $108.9 million during the quarter.

Physicians Realty Trust is expected to generate funds-from-operation of $1.06 in 2021, down from $1.08 and $1.09 previously.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	---	---	$0.27	$0.70	$0.92	$0.98	$1.04	$1.08	$1.00	$1.05	***$1.06***	***$1.15***
DPS	---	---	$0.23	$0.90	$0.90	$0.90	$0.91	$0.92	$0.92	$0.92	***$0.92***	***$0.92***
Shares[2]	---	---	12	37	77	130	168	188	194	216	***217***	***225***

FFO for Physicians Realty Trust has nearly quadrupled since becoming a publicly-traded trust. The trust has compounded FFO by a rate of 21% since forming, but much of this growth occurred in the early years of this time frame. Over the last five years, FFO has grown by a rate of 1.7%. It should be noted that growth has slowed recently, but Physicians Realty Trust has drastically increased its share count in order to fund acquisitions. FFO continued to grow even as the share count increased. Erring on the side of caution, we reaffirm adjusted our expected FFO growth rate to 1.7%. Applying this new growth rate by our expected FFO per share could see FFO of $1.15 by 2026.

Physicians Realty Trust's dividend remained unchanged in 2015 and 2016, but was raised a $0.01 in each of the next two years. Given the lack of dividend growth since its IPO, and the already-high payout ratio, we are not projecting dividend growth for the trust over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	---	---	47.2	23.7	18.3	19.3	17.3	14.8	18.9	17.0	***17.9***	***15.0***
Avg. Yld.	---	---	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	5.2%	***4.8%***	***5.3%***

[1] Estimated date

[2] In millions of shares

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Shares of Physicians Realty Trust are unchanged since our 8/5/2021 update. Physicians Realty Trust has traded with an average price-to-funds-from-operation ratio of 22.1 since becoming public. Removing the trust's first year valuation, the average P/FFO ratio drops to 18.5. We have a 2026 target P/FFO ratio of 15 due to low expected FFO growth over the next five years. Based off of the current share price and expected FFO for 2021, the stock has a P/FFO ratio of 17.9. If shares were to trade at our target multiple, then valuation would reduce annual returns by 3.5% through 2026.

Physicians Realty Trust's current yield is below the stock's five-year average yield of 5.3%, but is nearly 4x the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	85%	129%	98%	92%	88%	85%	92%	88%	***87%***	***80%***

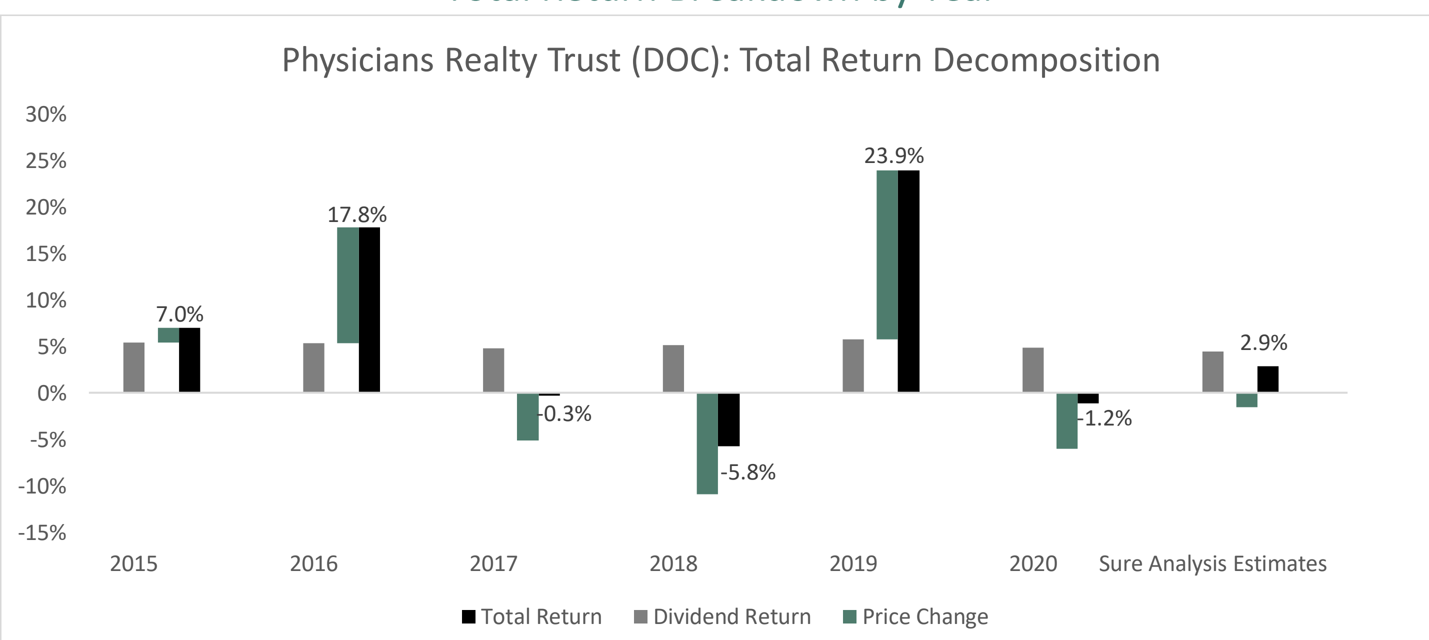
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years shouldn't be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with the trust.

Physicians Realty Trust key competitive advantage is that its properties are likely to be in demand regardless of economic conditions; consumers will seek out medical care during all parts of the economic cycle. The trust has also shown the ability increase FFO while simultaneously issuing stock to help finance transactions.

Final Thoughts & Recommendation

After third quarter results, Physicians Realty Trust is now expected to return 2.9% annually through 2026, down from our previous estimate of 3.2%. This projection stems from a 1.7% FFO growth rate and 4.8% dividend yield offset set by a low single-digit headwind from multiple reversion. Physicians Realty Trust continues to have a high occupancy rate and has a portfolio that performed very well during the worst of the COVID-19 pandemic. We have lowered our 2026 price target $1 to $17 due to updated EPS estimates for the year. Income investors will likely find the yield attractive, but we rate shares as a sell due to projected returns.

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	14	13	17	53	129	241	344	423	415	438
Gross Profit	9	8	12	43	98	175	247	300	290	309
Gross Margin	64.2%	63.6%	72.7%	81.0%	76.0%	72.6%	71.8%	71.0%	69.9%	70.7%
SG&A Exp.	1	1	4	11	15	18	23	29	33	34
D&A Exp.	5	4	5	17	48	90	130	163	151	154
Operating Profit	3	3	4	15	38	70	98	113	111	126
Operating Margin	22.1%	21.8%	21.1%	28.1%	29.4%	29.1%	28.6%	26.7%	26.7%	28.8%
Net Profit	(3)	(2)	(2)	(4)	12	30	38	56	74	66
Net Margin	-22.1%	-11.7%	-13.1%	-7.6%	9.1%	12.4%	11.1%	13.3%	17.9%	15.1%
Free Cash Flow	3	3	1	12	54	116	157	174	161	199

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	125	108	293	812	1,639	2,888	4,164	4,143	4,347	4,414
Cash & Equivalents	2	3	56	16	3	15	3	19	2	3
Accounts Receivable	1	1	3	8	19	42	58	73	82	91
Goodwill & Int. Ass.	7	6	31	73	205	301	459	452	390	407
Total Liabilities	102	88	52	242	562	1,106	1,617	1,695	1,866	1,699
Accounts Payable	2	2	1	1	1	4	11	4	6	7
Long-Term Debt	99	84	43	216	484	991	1,477	1,533	1,634	1,439
Shareholder's Equity	22	19	205	535	1,021	1,738	2,473	2,380	2,409	2,641
D/E Ratio		4.43	0.21	0.40	0.47	0.57	0.60	0.64	0.68	0.54

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets		-1.3%	-1.1%	-0.7%	1.0%	1.3%	1.1%	1.4%	1.8%	1.5%
Return on Equity		-7.4%	-2.0%	-1.1%	1.5%	2.2%	1.8%	2.3%	3.1%	2.6%
ROIC		-1.5%	-1.2%	-0.8%	1.0%	1.4%	1.1%	1.4%	1.8%	1.6%
Shares Out.	---	---	12	37	77	130	168	188	194	216
Revenue/Share	1.30	1.22	1.32	1.61	1.69	1.85	2.04	2.25	2.17	2.07
FCF/Share	0.27	0.25	0.09	0.37	0.71	0.89	0.93	0.93	0.84	0.94

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