Global Medical REIT Inc. (GMRE)

Updated March 1st, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$15.70	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$1.04 B
Fair Value Price:	$15.00	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/23/2022[1]
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	04/08/2022
Dividend Yield:	5.2%	**5 Year Price Target**	$19.20	**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 163 facilities with an aggregate of 4.2 million leasable square feet (LSF) and an aggregate of $100 million worth of annualized base rent. Around 65.1% of the company's LSF is of Medical Office Buildings (MOB), 19.1% is of Inpatient Rehab Facilities (IRF), 6.4% of surgical facilities, and the rest 9.4% of other specialized facilities. The $1.04 billion company is based in Bethesda, Maryland.

On February 28th, 2022, Global Medical reported its Q4 results for the period ending December 31st, 2021. Rental revenues came in at $30.3 million, an increase of 21.8% year-over-year. Growth was reflected by the company's portfolio, including its 20 acquisitions during 2021. Specifically, during Q4, the company completed four acquisitions with an aggregate of 110,659 LSF. Combined with cost efficiencies, AFFO grew by 32.3% to $16.4 million. On a per-share basis, AFFO remained stable at $0.24, 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 97.5% (140 bps lower quarter-over-quarter), the weighted average lease term for the REIT's portfolio was 7.1 years, while the weighted average annual rental escalations were 2.1%. Subsequent to the quarter-end, the company had seven more properties under contract to be potentially acquired, for which it is currently in due diligence period. We have set our initial FY2022 AFFO/share estimate at $1.00.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO/shr[2]	---	---	---	($0.88)	($0.03)	$0.54	$0.76	$0.75	$0.88	$0.95	***$1.00***	***$1.28***
DPS	---	---	---	$1.02	$0.74	$0.80	$0.80	$0.80	$0.80	$0.82	***$0.82***	***$0.86***
Shares[3]	---	---	---	0.3	9.3	19.6	22.0	33.9	46.3	60.7	***60.7***	***150.0***

Global Medical has been growing its healthcare property portfolio rapidly, enjoying robust cash flows and high-quality tenants. The company's solid 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 at the time. 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 retain our AFFO/share annual growth expectations at 5% in the medium term.

In terms of its dividend, combined with its preferred shares, the company had been paying out more to shareholders than it was earning up until 2019. This was most likely to attract investors amid the continuous share issuances that it constantly executes to grow its portfolio. It was essential in keeping the share price as high as possible during such times. Eventually, Global Medical's AFFO/share caught up with the dividend, as it seems to have been the case over the past couple of years. The 2.5% DPS increase last March certainly confirms that. That being said, we expect annualized

[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.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	---	---	---	---	---	17.0	12.5	15.3	14.2	15.7	***15.7***	***15.0***
Avg. Yld.	---	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	5.4%	***5.2%***	***4.5%***

Global Medical's stock currently trades around 15.7 times our expected FY2022 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

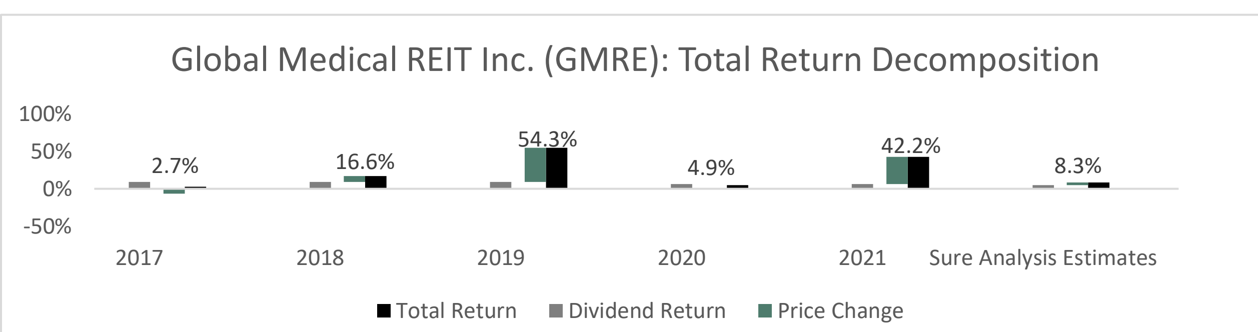
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	148%	105%	107%	91%	86%	***82%***	***68%***

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 19.1% of its rental revenues, while no tenant accounts for more than 7.2% 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 share issuance) or its (admittedly better) cost of debt, which currently stands at 2.87%, 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. We forecast annualized returns of around 8.3% through 2027, primarily powered by the stock's yield and modest per-share growth potential, offset by valuation headwinds. Shares earn a hold rating.

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				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
LTD/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.