National Health Investors Inc (NHI)

Updated May 12th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$2.5 B
Fair Value Price:	$58	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	06/29/2022
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date[1]:**	07/05/2022
Dividend Yield:	6.7%	**5 Year Price Target**	$64	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

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 had raised its dividend for 19 years, but then slashed it in 2021. This healthcare facility REIT has a market capitalization of $2.5 billion.

On March 31st, 2022, NHI had investments in 132 senior housing properties, 68 skilled nursing facilities, and one hospital across 32 states. During 2021, rental income was $271 million and made up 91% of income.

On May 9th, National Health Investors released first quarter 2022 results. Normalized FFO per diluted common share for the quarter was $1.10, an 11.3% decrease from the prior year quarter.

The company collected only 79.7% of contractual cash due in the quarter, with $9.8 million in rent concessions, $5.5 million of which was allocated to Bickford.

The company has sold two underperforming properties for $13.7 million to optimize the portfolio. National Health also has twenty properties worth $132.0 million classified as assets held for sale. Rent for the twenty properties in the first Q1 2022 was $3.1 million.

On April 15th, 2022, NHI approved a stock repurchase plan for up to $240 million of their common shares, effective for one year.

On April 30th, 2022, NHI had $81 million outstanding on its $700 million revolver, and had roughly $62 million in unrestricted cash and cash equivalents. They also have around $416 million available under the ATM program.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFOPS	$3.08	$3.43	$3.75	$4.10	$4.39	$4.75	$5.04	$5.10	$5.29	$4.60	***$4.43***	***$4.89***
DPS	$2.63	$3.12	$3.08	$3.40	$3.60	$3.80	$4.00	$4.20	$4.41	$4.01	***$3.60***	***$3.78***
Shares[2]	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7	***45.5***	***50.0***

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 4.6% on average, but this has slowed recently and resulted in a 5-year AFFO growth rate of 0.9%. Shares outstanding have grown by nearly 6% annually over the last decade, which is somewhat 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 continued vaccinations and the sales of non-performing assets) should see NHI continue to grow. We are forecasting 2% average annual AFFO growth over the intermediate term.

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[1] Estimate

[2] In millions

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The corporation will pursue acquisitions and diversify 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	16.5	18.0	16.6	15.8	16.2	16.0	14.4	15.7	12.1	14.0	**12.2**	***13.0***
Avg. Yld.	5.0%	4.5%	4.8%	5.0%	4.9%	4.8%	5.4%	5.1%	6.9%	6.7%	**6.7%**	***6.0%***

National Health Investors has traded at a P/E ratio of 15.5 on average in the past nine years, and 14.4 on average in the past five years. While shares trade at 12.2 times estimated 2022 AFFO, we believe fair value is closer to 13.0 times AFFO, which could lead to a 1.3% annual gain due to valuation expansion. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	85%	91%	82%	83%	82%	80%	79%	82%	83%	87%	***81%***	***77%***

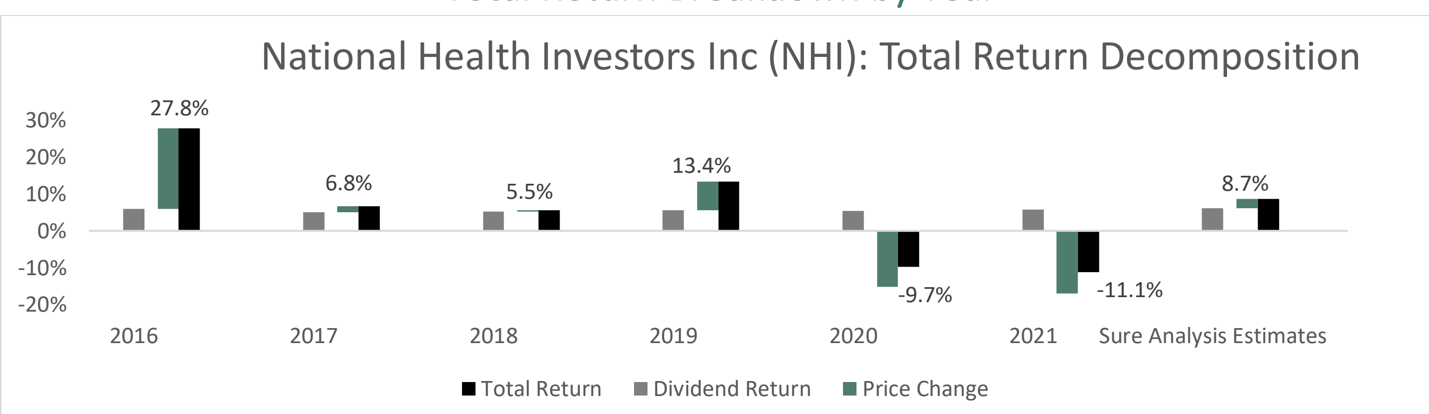
While NHI does not have a strong competitive advantage over other healthcare REITs, the corporation believes that they have an advantage in accessing debt markets due to a strong balance sheet. The company is highly diversified across tenant, geography and asset type which is also advantageous. During 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 targets a 60/40 equity/debt funding mix. At the end of Q2 2022, NHI was just within its target leverage range at 4.9x, and its fixed charge coverage ratio was 6.4x. 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 below our estimated fair value, and has expected annualized total returns of 8.7%, the majority of which come from the dividend of 6.7%. NHI earns 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	93	118	178	229	248	279	295	318	333	299
Gross Profit						279	295	312	323	287
Gross Margin	0.0%	0.0%	0.0%	0.0%	0.0%	100%	100%	98.2%	97.1%	96.1%
SG&A Exp.	9	10	9	11	10	13	13	14	15	19
D&A Exp.	17	21	41	57	63	67	71	77	83	81
Operating Profit	69	87	130	164	178	198	204	220	225	186
Operating Margin	74.2%	74.0%	73.0%	71.6%	71.5%	71.0%	69.3%	69.2%	67.6%	62.3%
Net Profit	91	106	102	149	152	159	154	160	185	112
Net Margin	97.2%	90.1%	57.2%	65.0%	61.0%	57.2%	52.4%	50.4%	55.6%	37.4%
Free Cash Flow	86	104	126	164	177	198	208	241	232	211

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	706	1456	1,983	,2133	2,404	2,546	2,751	3,042	3,120	2,839
Cash & Equivalents	9	11	3	13	5	3	5	5	43	37
Accounts Receivable	14	21	39	63	82	100	112	89	98	99
Total Liabilities	238	679	933	991	1,194	1,224	1,361	1,544	1,598	1,322
Accounts Payable	4	8	16	20	21	16	20	26	25	23
Long-Term Debt	203	617	863	914	1,116	1,145	1,282	1,440	1,499	1243
Shareholder's Equity	457	767	1,040	1,133	1,210	1,322	1,390	1,498	1,512	1,507
LTD/E Ratio	0.44	0.81	0.83	0.81	0.92	0.87	0.92	0.96	0.99	0.82

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	14.1%	9.8%	5.9%	7.2%	6.7%	6.4%	5.8%	5.5%	6.0%	3.8%
Return on Equity	20.1%	17.4%	11.2%	13.7%	12.9%	12.6%	11.4%	11.1%	12.3%	7.4%
ROIC	15.0%	10.3%	6.1%	7.5%	6.9%	6.6%	6.0%	5.7%	6.2%	3.9%
Shares Out.	27.8	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7
Revenue/Share	3.35	4.15	5.31	6.08	6.35	6.77	7.00	7.28	7.45	6.53
FCF/Share	3.10	3.67	3.77	4.37	4.51	4.81	4.94	5.51	5.19	4.61

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