Global Medical REIT Inc. (GMRE)

Updated August 4th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.75	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$789.8 M
Fair Value Price:	$12.50	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	09/23/2022[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	10/08/2022
Dividend Yield:	7.1%	**5 Year Price Target**	$14.49	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $1.4 billion. They comprise 181 facilities with an aggregate of 4.7 million leasable square feet (LSF) and an aggregate of $109.1 million worth of annualized base rent. Around 66.6% of the company's LSF is of Medical Office Buildings (MOB), 18.2% is of Inpatient Rehab Facilities (IRF), 6.1% of surgical facilities, and the rest 9.1% of other specialized facilities. The $816.8 million company is based in Bethesda, Maryland.

On August 3rd, 2022, Global Medical reported its Q2 results for the period ending June 30th, 2022. Rental revenues came in at $33.7 million, an increase of 19.4% year-over-year. The growth reflected an expanded portfolio, including 36 acquired since Q2-2021. During Q2, the company completed five acquisitions with an aggregate of 255,126 LSF, which also contributed to top-line growth. Combined with cost efficiencies, AFFO grew by 24.8% to $17.6 million. On a per-share basis, AFFO grew by just three cents to $0.25 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 96.5%, 50 bps lower sequentially. However, the decline was based entirely on certain properties acquired during the second quarter that were not fully leased. The weighted average lease term for the REIT's portfolio was 6.7 years, while the weighted average annual rental escalations were 2.1%. Subsequent to the quarter-end, the company completed two acquisitions encompassing an aggregate of 133,380 LSF and had four more properties under contract to be potentially acquired. These are currently in the due diligence period. For fiscal 2022, we continue to expect AFFO/share of $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***	***$1.16***
DPS	---	---	---	$1.02	$0.74	$0.80	$0.80	$0.80	$0.80	$0.82	***$0.84***	***$0.88***
Shares[3]	---	---	---	0.3	9.3	19.6	22.0	33.9	46.3	60.7	***65.5***	***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 in 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 estimate at 3% through 2027 as a rising rates environment could further hurt the company's bottom line growth prospects. 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 to keep

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[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.

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 second in a row 2.4% DPS increase this past March certainly confirms that. That being said, we expect annualized 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	***11.8***	***12.5***
Avg. Yld.	---	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	5.4%	***7.1%***	***6.1%***

Global Medical's stock currently trades around 11.8 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 be expanded slightly more toward 12.5, as the high yield should attract investor interest to the stock, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

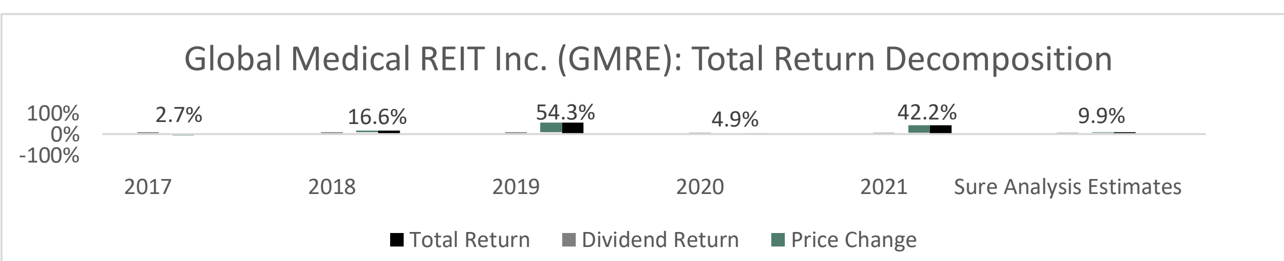
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	148%	105%	107%	91%	86%	***84%***	***76%***

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 18.3% of its rental revenues, while no tenant accounts for more than 6.9% 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 3.14%, 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 9.9% through 2027, primarily powered by the stock's yield and humble per-share growth potential, further boosted by soft valuation tailwinds. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue			1	2	8	30	53	71	94	116
Gross Profit				2	8	28	49	65	83	100
Gross Margin			0.0%	96.1%	99.1%	93.9%	93.0%	91.6%	88.4%	86.2%
SG&A Exp.			0	1	6	9	10	13	16	16
D&A Exp.			0	1	2	10	18	26	37	47
Operating Profit			0	1	0	10	22	27	31	37
Operating Margin			15.6%	26.0%	1.3%	32.5%	41.8%	38.6%	32.6%	31.9%
Net Profit			(0)	(2)	(6)	(0)	13	9	(2)	17.6
Net Margin			-68.7%	-78.0%	-77.4%	-0.1%	25.4%	13.1%	-2.1%	15.2%
Free Cash Flow			0	(32)	(153)	(240)	(159)	(220)	(184)	(133)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets			24	65	227	472	636	885	1,101	1,263
Cash & Equivalents			0	9	20	5	4	3	6	7
Accounts Receivable			0	-	0	1	3	5	6	6
Goodwill & Int. Ass.				-	7	29	36	59	80	94
Total Liabilities			23	65	72	213	336	425	643	626
Accounts Payable				1	1	2	4	5	7	10
Long-Term Debt			22	64	67	201	315	386	587	571
Shareholder's Equity			2	(0)	155	171	194	355	370	548
LTD/E Ratio			12.72	(461)	0.43	0.81	1.17	0.90	1.32	0.92

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			-1.8%	-3.6%	-4.3%	0.0%	2.4%	1.2%	-0.2%	1.5%
Return on Equity			-20.8%	-203%	-8.2%	0.0%	7.4%	3.4%	-0.5%	3.8%
ROIC			-1.8%	-3.7%	-4.5%	0.0%	2.5%	1.3%	-0.2%	1.6%
Shares Out.				0.3	9.3	19.6	22.0	33.9	46.3	60.6
Revenue/Share			2.39	8.25	0.88	1.55	2.42	2.09	2.03	1.91
FCF/Share			0.52	(127)	(16.4)	(12.2)	(7.22)	(6.51)	(3.98)	(2.19)

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