



Medical Properties Trust (MPW)

Updated August 7th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$15.9	5 Year CAGR Estimate:	18.2%	Market Cap:	\$9.5B
Fair Value Price:	\$22.8	5 Year Growth Estimate:	5.7%	Ex-Dividend Date:	09/15/22 ¹
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.5%	Dividend Payment Date:	10/14/22 ²
Dividend Yield:	7.3%	5 Year Price Target	\$30	Years of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Founded in 2003, Medical Properties Trust is the only pure-play hospital REIT today. It owns a well-diversified portfolio of over 400 properties which are leased to over 30 different operators. The great majority of the assets are general acute care hospitals, but show some diversification into other specialty hospitals, including inpatient rehabilitation and long-term acute care. The portfolio of assets is also well diversified across different geographies with properties in 29 states to mitigate the risk of demand and supply imbalances in individual markets. On top of its US portfolio, Medical Properties maintains a strategic exposure to key European markets, including Germany, the UK, Italy, and Australia. It currently trades at a market capitalization of \$9.5 billion.

Medical Properties reported Q2 results on August 3rd, 2022. Net income for the quarter stood at \$0.32, up from \$0.19 in the year-ago period. Normalized funds from operations (NFFO) came in at \$0.46, up from \$0.43 cents in the year-ago quarter. The company also reported that it has acquired three radiotherapy facilities in Spain for €27 million in May, signed an agreement to develop a behavioral health facility in McKinney, Texas in July, and acquired a hospital in Colombia for \$26 million in late July.

Moreover, the company also amended its credit facility during the quarter updating the capacity to \$2.0 billion and extending the revolver maturity dates and term loan to June 2026 and June 2027, respectively. Meanwhile, the trust still expects 2022 normalized funds from operations per share of \$1.78 to \$1.82, while 2022 net income of \$1.88 to \$1.92. Finally, revenue increased 4.8% to \$400.22 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/S	\$0.90	\$0.96	\$1.06	\$1.26	\$1.28	\$1.35	\$1.37	\$1.30	\$1.57	\$1.75	\$1.82	\$2.40
DPS	\$0.80	\$0.81	\$0.84	\$0.88	\$0.91	\$0.96	\$1.00	\$1.04	\$1.08	\$1.12	\$1.16	\$1.45
Shares³	132.3	151.4	170.0	236.7	320.5	364.4	381.0	520.9	579.9	596.7	598.8	700

Medical Properties' FFO/share growth has been strong over the past decade as it has gone from \$0.72 in 2011 to \$1.75 in 2021. Looking ahead the trust expects its aggressive acquisition pipeline to combine with its defensive net-leases to drive growth. Though we don't expect the trust to continue its 2019 pace of acquisitions, they should continue to find attractive acquisition opportunities due to their extensive geographic reach into developed, and aging populations (the U.S., Europe, and Australia). Given that some hospitals are facing significant headwinds in the current environment, we believe that this will offset some of the expected growth from acquisitions. However, we expect that the long-term growth profile will remain intact.

¹ Estimate

² Estimate

³ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	13.7	12.7	13.1	9.1	9.6	10.2	11.6	14.6	13.1	12.2	8.7	12.5
Avg. Yld.	6.5%	6.6%	6.0%	7.7%	7.4%	7.0%	6.3%	4.9%	5.3%	5.3%	7.3%	4.8%

Medical Properties' fair value multiple of FFO is estimated to be around 12.5 times as the company currently has a strong growth profile ahead of it and has built a well-diversified portfolio that justifies a premium to NAV. Given that it currently trades at 8.7 times FFO, we believe that multiple expansion in the years ahead will add a tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	88.9%	84.4%	79.2%	69.8%	71.1%	71.1%	73.0%	72.9%	68.8%	64.0%	63.7%	60.4%

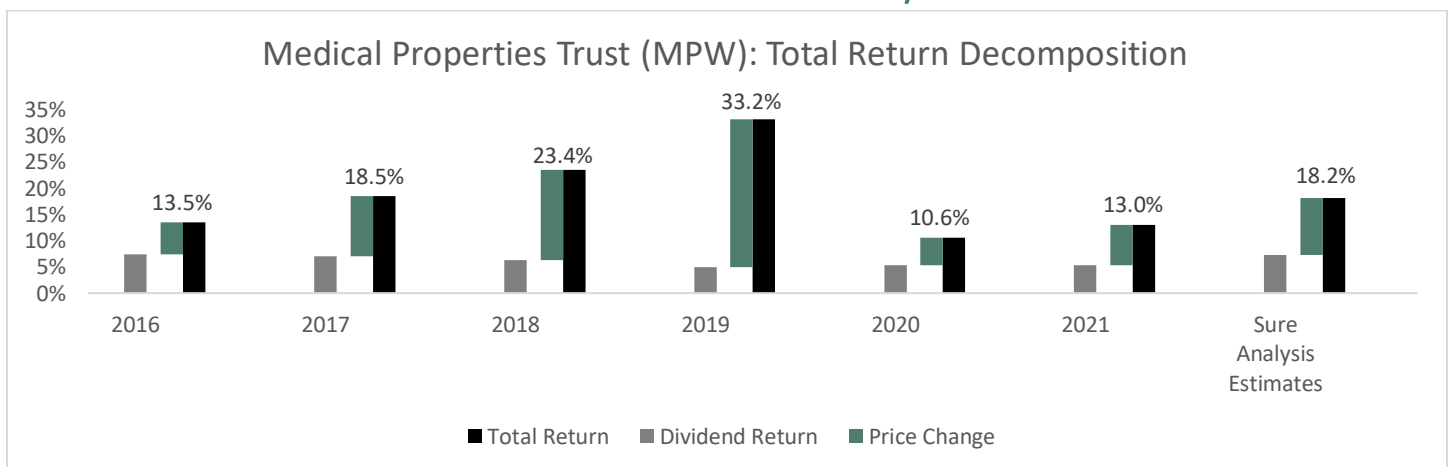
As a hospital REIT, Medical Properties is a defensive stock due to the fact that the medical industry is typically quite recession resistant. That being said, Medical Properties did not escape the last recession unscathed as its dividend was cut and its FFO/share fell 31% from peak-to-trough. However, its business is much better diversified and higher quality now, so we expect that it will perform better during the next recession.

Medical Properties enjoys several competitive advantages. First and foremost, as the only pure-play hospital REIT with over a decade-and-a-half of experience, it enjoys specialized operating and investing knowledge within its niche as well as a strong network advantage. This niche expertise and network strength played a big role in them forming a lucrative partnership with Brookfield Asset Management for a large hospital network in Australia. Additionally, the trust's strong geographic diversification further cushions its cash flows from currency and economic impacts while also giving it numerous avenues for growth and opportunistic capital allocation/recycling.

Final Thoughts & Recommendation

Medical Properties Trust is meaningfully undervalued right now and - given its decent near-term growth outlook, attractive yield, and defensive business model - the trust looks to be a very attractive Buy for dividend and dividend growth investors. Its projected 5-year annualized total return is 18.2%, coming from its 7.3% dividend yield, expected 5.7% annualized FFO/share growth rate, and slight expected multiple expansion. With that said, we do have some concerns about dividend safety in a severe and protracted recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	198	243	313	442	541	705	785	854	1,249	1,545
Gross Profit	197	240	311	438	538	699	775	830	1,224	1,506
Gross Margin	99.3%	99.0%	99.4%	99.1%	99.5%	99.2%	98.8%	97.2%	98.0%	97.5%
SG&A Exp.	29	30	37	44	49	59	81	96	132	146
D&A Exp.	36	39	55	72	98	132	141	157	276	
Operating Profit	135	173	219	325	395	515	561	581	828	1,039
Operating Margin	68.3%	71.3%	70.2%	73.5%	73.0%	73.1%	71.5%	68.1%	66.3%	67.2%
Net Profit	90	97	51	140	225	290	1,017	375	431	656
Net Margin	45.4%	40.0%	16.2%	31.6%	41.6%	41.1%	130%	43.9%	34.5%	42.5%
Free Cash Flow	105	141	150	207	264	362	449	494	618	
Income Tax	0	1	0	2	(7)	3	1	(3)	31	74

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,179	2,905	3,720	5,609	6,419	9,020	8,844	14,467	16,829	20,520
Cash & Equivalents	37	46	145	196	83	171	821	1,462	550	459
Accounts Receivable	81	104	100	129	175	265	247	366	537	785
Total Liabilities	1,129	1,560	2,338	3,502	3,165	5,185	4,283	7,439	9,485	12,074
Long-Term Debt	1,025	1,422	2,175	3,323	2,909	4,899	4,037	7,024	8,865	11,283
Shareholder's Equity	1,050	1,344	1,382	2,102	3,248	3,821	4,547	7,028	7,339	8,440
LTD/E Ratio	0.98	1.06	1.57	1.58	0.90	1.28	0.89	1.00	1.21	1.34

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.7%	3.8%	1.5%	3.0%	3.7%	3.8%	11.4%	3.2%	2.8%	3.5%
Return on Equity	9.6%	8.1%	3.7%	8.0%	8.4%	8.2%	24.3%	6.5%	6.0%	8.3%
ROIC	5.0%	4.0%	1.6%	3.1%	3.9%	3.9%	11.7%	3.3%	2.9%	3.7%
Shares Out.	132.3	151.4	170.0	236.7	320.5	364.4	381.0	520.9	579.9	596.7
Revenue/Share	1.50	1.59	1.83	2.02	2.07	2.01	2.14	1.99	2.36	2.62
FCF/Share	0.80	0.92	0.88	0.95	1.01	1.03	1.23	1.15	1.16	

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

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