



Universal Health Realty Income Trust (UHT)

Updated July 29th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$53.9	5 Year CAGR Estimate:	9.8%	Market Cap:	\$746.8M
Fair Value Price:	\$63.1	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	09/16/22 ¹
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	09/30/22 ²
Dividend Yield:	5.3%	5 Year Price Target	\$71	Years Of Dividend Growth:	36
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Universal Health Realty Income Trust operates as a real estate investment trust (REIT), specializing in the healthcare sector. The trust owns healthcare and human service-related facilities. Its property portfolio includes acute care hospitals, medical office buildings, rehabilitation hospitals, behavioral healthcare facilities, sub-acute care facilities and childcare centers. The trust was founded in 1986 and currently has a market capitalization of \$746.8 million. Universal Health's portfolio consists of 69 properties in 20 states.

On July 25th, 2022 Universal Health released Q2 results. Net income decreased to \$2.20 from \$3.79 in the year-ago period. Q2 adjusted net income decreased to \$163.9 million from \$322.3 million year-over-year. Q2 funds from operations stood at \$0.88. Q2 net revenues increased by 3.9% to \$3.323 billion from \$3.198 billion in the year-ago period. Meanwhile, UHT declared \$1.056 billion of aggregate available borrowing capacity and \$1.21 billion of aggregate available repurchase authorization as of June 30, 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO	\$2.70	\$2.75	\$2.78	\$2.88	\$3.09	\$3.10	\$3.28	\$3.35	\$3.29	\$3.61	\$3.67	\$4.15
DPS	\$2.46	\$2.49	\$2.52	\$2.56	\$2.60	\$2.64	\$2.68	\$2.72	\$2.76	\$2.76	\$2.84	\$2.94
Shares³	12.7	12.9	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	14.0

For REITs, it is better to use FFO rather than EPS, as traditional GAAP earnings is influenced by depreciation, which is a significant *non-cash* expense for a real estate trust. Going forward, Universal Health will benefit from changing demographics. The U.S. is an aging society, with over 70 million Baby Boomers, those generally born between 1946 and 1964. As the sizable Baby Boomer generation ages, demand for healthcare facilities is poised to grow. REITs that own healthcare properties, such as Universal Health, are in prime position to capitalize on the changing demographic landscape. Universal Health's growth will be accomplished by rising rents on existing properties, and by acquiring new properties. This is somewhat offset on a per share basis as a result of raising funds via issuing equity. Overall, we anticipate low-single-digit (2.5%) annualized growth over the intermediate-term, in-line with the trust's very consistent past.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	18.7	14.6	17.3	17.4	21.2	24.2	18.7	34.0	18.0	16.0	14.7	17.2
Avg. Yld.	4.9%	6.2%	5.2%	5.1%	4.0%	3.5%	4.4%	2.4%	4.7%	5.0%	5.3%	4.1%

Over the past decade, shares of Universal Health have traded hands with an average Price-to-FFO of ~17. This was marked by a considerable multiple expansion coming out of the recession – starting at 11 and since growing to 34 times

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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FFO recently before falling to today's level of 14.7. While the business has proven itself to be very stable, due to the mediocre growth prospects, we are not willing to assign a valuation above the historical average. That said, shares are currently undervalued.

Meanwhile, the dividend ought to add nicely to shareholder returns, although we do not expect a lot of growth from here given the already-high payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	91%	91%	91%	89%	84%	85%	82%	81%	82%	80%	77%	71%

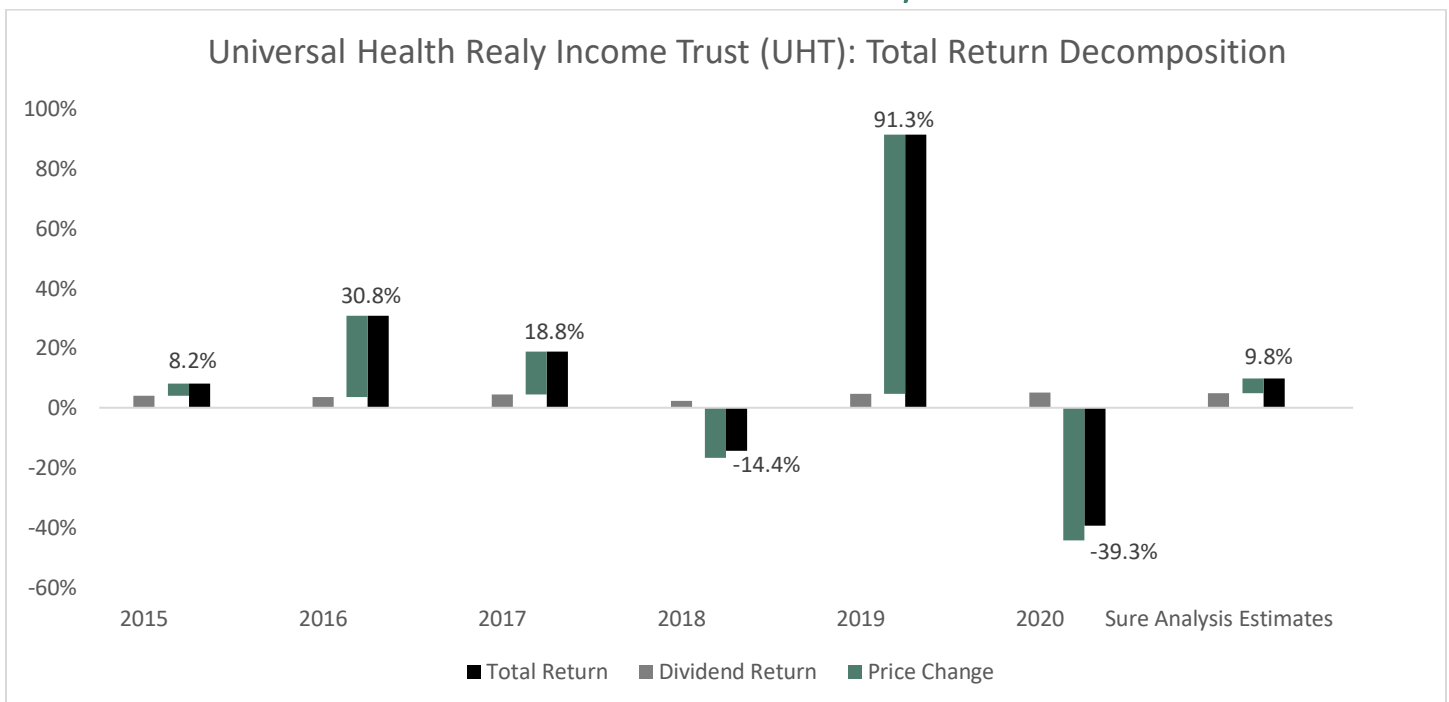
Universal Health does not have significant competitive advantages, in our view. As a small-cap trust, Universal Health is considerably smaller than other healthcare REITs. Universal Health can be expected to fare relatively well during economic downturns, but it is not immune from recessions. The trust remained profitable during the Great Recession of 2007-2009, and it continued to raise its dividend each year. However, it did see FFO decline slightly in 2010 and 2011.

Universal Health has a nice dividend yield and a secure payout. These are arguably the most important metrics for income investors. REITs are required to distribute at least 90% of their taxable income, and in exchange, do not pay income tax at the top level. The trust has also increased its dividend for over three consecutive decades.

Final Thoughts & Recommendation

Universal Health has increased its dividend each year for many years, exemplifying the consistency of the business model. Moreover, it is in an industry that ought to see demand for many decades to come and shares currently trade slightly below historical multiples and offer an attractive 5.3% dividend yield. The bad news is that projected annualized growth is still not high. Collectively, shares earn a hold rating as the 9.8% total annualized return potential stemming from the steady and growing dividends make it an attractive risk-adjusted purchase for dividend growth investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	54	54	60	64	67	72	76	77	78	84
Operating Profit	17	19	19	21	23	24	27	26	26	29
Operating Margin	31.6%	34.5%	32.6%	32.7%	33.8%	33.4%	35.0%	33.4%	33.3%	34.3%
Net Profit	19	13	52	24	17	46	24	19	19	109
Net Margin	36.1%	24.3%	86.2%	37.0%	25.7%	63.1%	31.7%	24.6%	24.9%	130%
Free Cash Flow	13	27	17	21	(20)	37	39	38	42	35

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	383	373	429	459	525	490	484	489	494	598
Cash & Equivalents	3	3	4	4	4	3	5	6	6	23
Accounts Receivable	5	5	6	6	8	9	10	11	11	12
Goodwill & Int. Ass.	26	21	23	20	24	21	17	15	12	10
Total Liabilities	205	208	224	263	333	279	285	307	335	363
Long-Term Debt	198	200	213	252	316	256	261	274	295	329
Shareholder's Equity	178	166	205	195	191	211	199	182	159	235
LTD/E Ratio	1.11	1.21	1.04	1.29	1.65	1.22	1.32	1.51	1.86	1.40

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.2%	3.5%	12.9%	5.3%	3.5%	9.0%	5.0%	3.9%	4.0%	20.0%
Return on Equity	10.6%	7.7%	27.8%	11.9%	8.9%	22.7%	11.8%	10.0%	11.4%	55.4%
ROIC	5.3%	3.6%	13.2%	5.5%	3.6%	9.4%	5.2%	4.1%	4.3%	21.4%
Shares Out.	12.7	12.9	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8
Revenue/Share	4.26	4.27	4.62	4.81	4.98	5.31	5.55	5.61	5.67	6.11
FCF/Share	1.04	2.10	1.33	1.61	(1.46)	2.71	2.83	2.73	3.05	2.52

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

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