



# Global Medical REIT Inc. (GMRE)

Updated November 7<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$8.88	<b>5 Year CAGR Estimate:</b>	16.2%	<b>Market Cap:</b>	\$619.1 M
<b>Fair Value Price:</b>	\$12.50	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	12/23/2022 <sup>1</sup>
<b>% Fair Value:</b>	71%	<b>5 Year Valuation Multiple Estimate:</b>	7.1%	<b>Dividend Payment Date:</b>	01/10/2022
<b>Dividend Yield:</b>	9.5%	<b>5 Year Price Target</b>	\$14.49	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## 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 \$1.5 billion. They comprise 181 facilities with an aggregate of 4.9 million leasable square feet (LSF) and an aggregate of \$113.7 million worth of annualized base rent. Around 68% of the company's LSF contains Medical Office Buildings (MOB), 17% Inpatient Rehab Facilities (IRF), 6% surgical facilities, and the rest 9% specialized facilities. The \$619.1 million company is based in Bethesda, Maryland.

On November 2<sup>nd</sup>, 2022, Global Medical reported its Q3 results for the period ending September 30<sup>th</sup>, 2022. Rental revenues came in at \$35.3 million, an increase of 18% year-over-year. The growth reflected an expanded portfolio, including 14 acquisitions year-to-date. During Q3, the company completed five acquisitions with an aggregate of 247,346 LSF, which also contributed to top-line growth.

AFFO grew by 4.2% to \$17.1 million. On a per-share basis, AFFO grew by one cent 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 96.8%, 30 bps higher sequentially. Further, the weighted average lease term for the REIT's portfolio was 6.4 years, while the weighted average annual rental escalations were 2.1%. For fiscal 2022, we still 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
<b>AFFO/shr<sup>2</sup></b>	---	---	---	(\$0.88)	(\$0.03)	\$0.54	\$0.76	\$0.75	\$0.88	\$0.95	<b>\$1.00</b>	<b>\$1.16</b>
<b>DPS</b>	---	---	---	\$1.02	\$0.74	\$0.80	\$0.80	\$0.80	\$0.80	\$0.82	<b>\$0.84</b>	<b>\$0.88</b>
<b>Shares<sup>3</sup></b>	---	---	---	0.3	9.3	19.6	22.0	33.9	46.3	60.7	<b>65.5</b>	<b>150.0</b>

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 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

<sup>1</sup> Estimated dates based on past dividend dates.

<sup>2</sup> Being a REIT, AFFO/share is more meaningful metric than EPS. The trust reports high depreciation and amortization levels.

<sup>3</sup> Share count is 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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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	8.9	12.5
Avg. Yld.	---	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	5.4%	9.5%	6.1%

Global Medical's stock currently trades around 8.8 times our expected FY2022 AFFO/share. While the company 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. The humble per-share growth prospects and combined with rising rates, could justify a discount. Nevertheless, we believe investors undervalue the stock at its current levels and expect the valuation multiple to be expanded significantly toward 12.5. The massive 9.5% yield should also attract investor interest in the stock.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

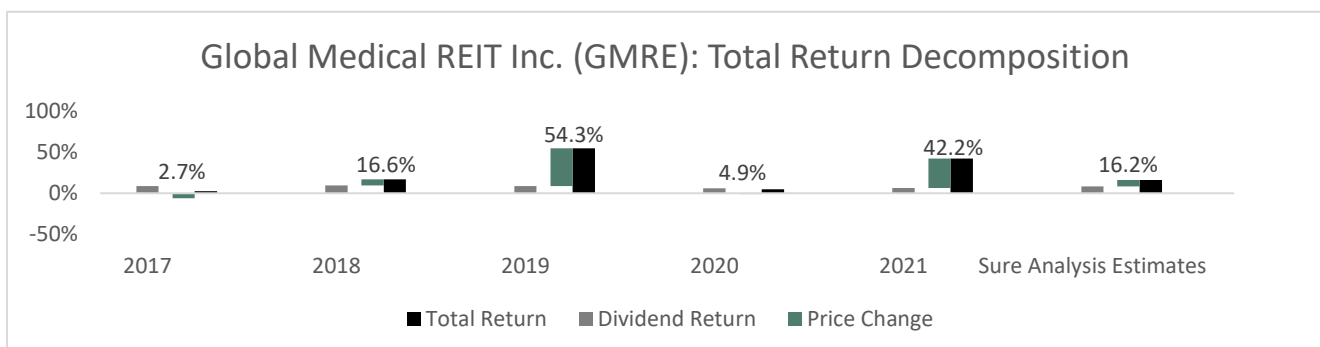
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	148%	105%	107%	91%	86%	84%	76%

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 3.65%, 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 16.2% through 2027, primarily powered by the 9.5% yield and humble per-share growth potential, further boosted by strong valuation tailwinds. Shares earn a buy rating.

## Total Return Breakdown by Year



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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.

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