



Medical Properties Trust (MPW)

Updated November 7th, 2022 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|--------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$11.3 | 5 Year CAGR Estimate: | 21.0% | Market Cap: | \$6.7B |
| Fair Value Price: | \$22.6 | 5 Year Growth Estimate: | 0.4% | Ex-Dividend Date: | 12/14/22 ¹ |
| % Fair Value: | 50% | 5 Year Valuation Multiple Estimate: | 14.9% | Dividend Payment Date: | 01/13/23 ² |
| Dividend Yield: | 10.3% | 5 Year Price Target | \$23 | Years of Dividend Growth: | 9 |
| Dividend Risk Score: | F | Retirement Suitability Score: | B | 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 \$6.7 billion.

On October 27th, Medical Properties reported Q3 FFO of \$0.45 per share. Revenue of \$352.34M (-9.8% Y/Y) missed analyst consensus estimates by \$36.68M. The company is increasing its estimate of 2022 per share net income to a range of \$1.99 to \$2.01 and is also tightening its estimate of 2022 per share NFFO to \$1.80 to \$1.82 from a prior range of \$1.78 to \$1.82 vs. consensus of \$1.82. Medical Properties plans to provide initial estimates of 2023 per share net income and NFFO when it reports fourth quarter earnings.

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 | \$1.81 | \$1.85 |
| DPS | \$0.80 | \$0.81 | \$0.84 | \$0.88 | \$0.91 | \$0.96 | \$1.00 | \$1.04 | \$1.08 | \$1.12 | \$1.16 | \$1.28 |
| Shares³ | 132.3 | 151.4 | 170.0 | 236.7 | 320.5 | 364.4 | 381.0 | 520.9 | 579.9 | 596.7 | 599.0 | 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.

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 | 6.2 | 12.5 |
| Avg. Yld. | 6.5% | 6.6% | 6.0% | 7.7% | 7.4% | 7.0% | 6.3% | 4.9% | 5.3% | 5.3% | 10.3% | 5.5% |

Medical Properties' fair value multiple of FFO is estimated to be around 12.5 times as the company currently has a solid growth profile ahead of it and has built a well-diversified portfolio and strong dividend growth track record that justifies

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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a decent multiple. Given that it currently trades at 6.2 times FFO, we believe that multiple expansion in the years ahead will add a significant tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 89% | 84% | 79% | 70% | 71% | 71% | 73% | 80% | 69% | 64% | 64% | 69% |

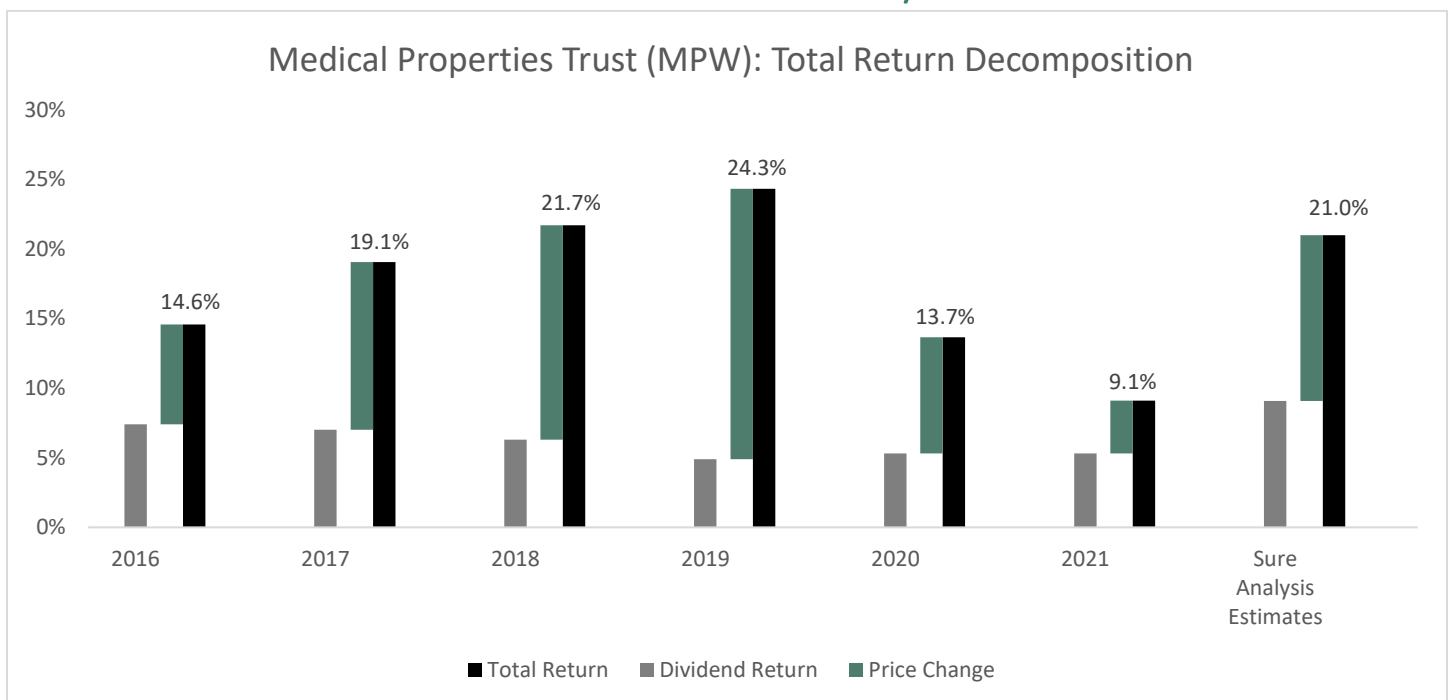
As a hospital REIT, Medical Properties is a defensive stock due to the fact that the medical industry is typically quite recession resistant. That being said, Medical Properties did not escape the last recession unscathed as its dividend was cut and its FFO/share fell 31% from peak-to-trough. However, 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 very 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 21%, coming from its 10.3% dividend yield, expected 0.4% annualized FFO/share growth rate, and substantial 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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