



Global Medical REIT Inc. (GMRE)

Updated March 6th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9.98	5 Year CAGR Estimate:	10.7%	Market Cap:	\$694.2 M
Fair Value Price:	\$10.58	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/24/2023 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	04/07/2023
Dividend Yield:	8.4%	5 Year Price Target	\$12.27	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 189 facilities with an aggregate of 4.9 million leasable square feet (LSF) and an aggregate of \$114.5 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 \$694.2 million company is based in Bethesda, Maryland.

On March 6th, 2023, Global Medical reported its Q4-2022 and full-year results for the period ending December 31st, 2022. Rental revenues came in at \$36.3 million, an increase of 19.7% year-over-year. The growth reflected an expanded portfolio, including 14 acquisitions during fiscal 2022 and rent escalations.

AFFO grew by 0.6% to \$16.5 million. On a per-share basis, AFFO came in stable at \$0.24 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%, 30 bps lower sequentially. Further, the weighted average lease term for the REIT's portfolio was 6.2 years, while the weighted average annual rental escalations were 2.1%. For fiscal 2023, we now expect AFFO/share of \$0.92.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO/shr²	---	---	(\$0.88)	(\$0.03)	\$0.54	\$0.76	\$0.75	\$0.88	\$0.95	\$0.98	\$0.92	\$1.07
DPS	---	---	\$1.02	\$0.74	\$0.80	\$0.80	\$0.80	\$0.80	\$0.82	\$0.84	\$0.84	\$0.88
Shares³	---	---	0.3	9.3	19.6	22.0	33.9	46.3	60.6	65.5	65.5	150.0

Global Medical has rapidly grown its healthcare property portfolio, 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 and annual rent escalations. We retain our AFFO/share annual growth estimate at 3% through 2028 as a rising-rates environment could hurt the company's bottom-line growth prospects. Higher rates also explain our lower AFFO/share estimate for FY2023.

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 consecutive 2.4% DPS increase in March of 2022 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.

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.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	---	---	---	---	17.0	12.5	15.3	14.2	15.7	12.9	10.8	11.5
Avg. Yld.	---	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	5.4%	6.6%	8.4%	7.2%

Global Medical's stock currently trades around 10.8 times our expected FY2023 AFFO/share. While the company is growing swiftly, its high dividend as a financing attraction certainly slowed down the per-share growth in both its future AFFO/share and DPS. The humble per-share growth prospects 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 toward 115. The significant 8.4% yield should also attract investor interest in the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

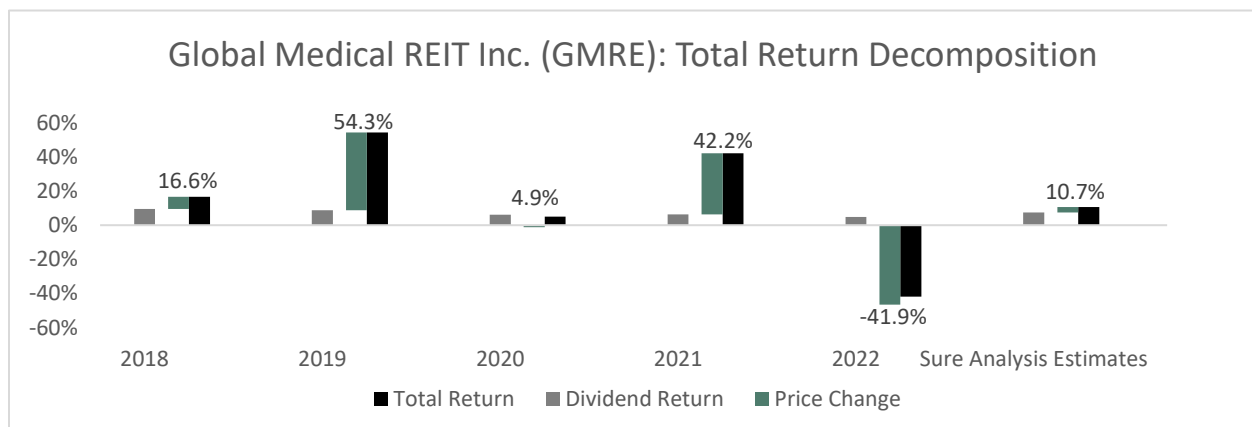
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	148%	105%	107%	91%	86%	86%	91%	83%

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% of its rental revenues, while no tenant accounts for more than 6.6% 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 4.07%, the company is likely to be subject to lower profit margins until the macroeconomic landscape improves. 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 10.7% through 2022, primarily powered by the 8.4% yield and humble per-share growth estimates, further boosted by a modest valuation tailwind. 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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