



Medical Properties Trust (MPW)

Updated February 28th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$10.4	5 Year CAGR Estimate:	16.8%	Market Cap:	\$6.2B
Fair Value Price:	\$17.0	5 Year Growth Estimate:	-0.6%	Ex-Dividend Date:	3/15/23
% Fair Value:	61%	5 Year Valuation Multiple Estimate:	10.3%	Dividend Payment Date:	4/13/23
Dividend Yield:	11.2%	5 Year Price Target	\$16.5	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 \$6.2 billion.

On February 23rd, Medical Properties reported Q4 and FY2022 results. The net loss for the fourth quarter ended December 31, 2022 was (\$140) million ((\$0.24) per diluted share), while the net income for the year ended December 31, 2022 was \$903 million (\$1.50 per diluted share). These figures are compared to the year earlier periods, which had a net income of \$207 million (\$0.34 per diluted share) and \$656 million (\$1.11 per diluted share), respectively. For the fourth quarter and year ended December 31, 2022, NFFO was \$258 million (\$0.43 per diluted share) and \$1,088 million (\$1.82 per diluted share), respectively. This is compared to the year earlier periods, which had NFFO of \$279 million (\$0.47 per diluted share) and \$1,036 million (\$1.75 per diluted share), respectively. The Company has provided initial estimates for 2023 calendar year, with a range of per share net income and NFFO of \$0.83 to \$0.98 and \$1.50 to \$1.65, respectively. The high-end of the range reflects management's expectation of recovering certain amounts from Prospect and recognizing it as revenue in the second half of 2023, while the low-end considers the possibility that this revenue is recognized after 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO/S	\$0.96	\$1.06	\$1.26	\$1.28	\$1.35	\$1.37	\$1.30	\$1.57	\$1.75	\$1.82	\$1.70	\$1.65
DPS	\$0.81	\$0.84	\$0.88	\$0.91	\$0.96	\$1.00	\$1.04	\$1.08	\$1.12	\$1.16	\$1.16	\$1.28
Shares¹	151.4	170.0	236.7	320.5	364.4	381.0	520.9	579.9	599.8	597.5	597.5	700

Medical Properties' FFO/share growth has been strong over the past decade as it has gone from \$0.72 in 2011 to \$1.82 in 2022. That said, the forward outlook is much less certain given that many of its tenants are struggling financially and may get hit even harder in a recession due to the decline in elective medical procedures during times of economic hardship. As a result, we expect that FFO per share will decline slightly over the next half decade.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	12.7	13.1	9.1	9.6	10.2	11.6	14.6	13.1	12.2	6.2	6.1	10.0
Avg. Yld.	6.6%	6.0%	7.7%	7.4%	7.0%	6.3%	5.5%	5.3%	5.2%	10.3%	11.2%	7.8%

¹ In millions

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Medical Properties' fair value multiple of FFO is estimated to be around 10 times as the company growth profile is being challenged by financial struggles among several of its tenants. Given that it currently trades at 6.1 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	84%	79%	70%	71%	71%	73%	80%	69%	64%	64%	68%	78%

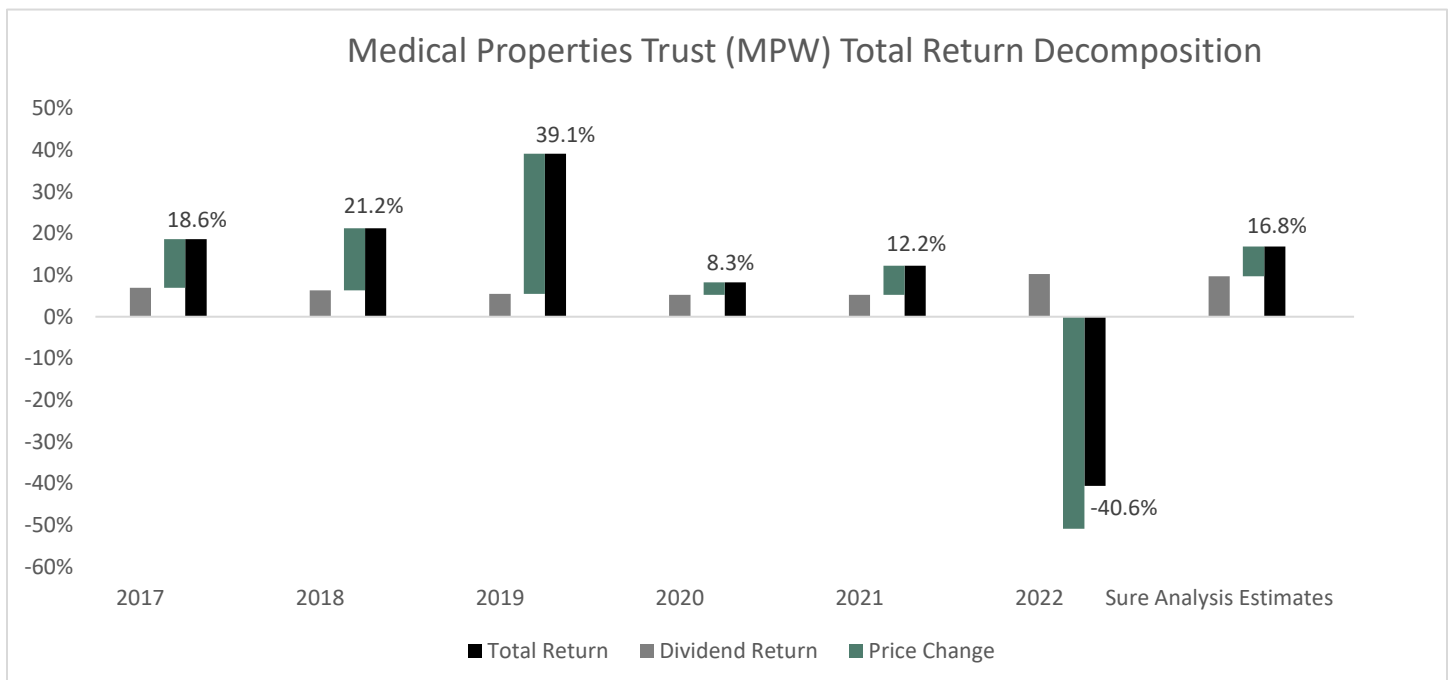
As a hospital REIT, Medical Properties is a defensive stock due to the fact that the medical industry is typically quite recession resistant. That being said, Medical Properties did not escape the last recession unscathed as its dividend was cut and its FFO/share fell 31% from peak-to-trough. However, 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 16.8%, coming from its 11.2% dividend yield, expected -0.6% 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 given the current financial weakness in its tenants.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	243	313	442	541	705	785	854	1,249	1,545	1,543
Gross Profit	240	311	438	538	699	775	830	1,224	1,506	1,497
Gross Margin	99.0%	99.4%	99.1%	99.5%	99.2%	98.8%	97.2%	98.0%	97.5%	97.0%
SG&A Exp.	30	37	44	49	59	81	96	132	146	160
D&A Exp.	39	55	72	98	132	141	157	276	334	346
Operating Profit	173	219	325	395	515	561	581	828	1,039	1,004
Operating Margin	71.3%	70.2%	73.5%	73.0%	73.1%	71.5%	68.1%	66.3%	67.2%	65.1%
Net Profit	97	51	140	225	290	1,017	375	431	656	903
Net Margin	40.0%	16.2%	31.6%	41.6%	41.1%	130%	43.9%	34.5%	42.5%	58.5%
Free Cash Flow	141	150	207	264	362	449	494	618	812	739
Income Tax	1	0	2	(7)	3	1	(3)	31	74	56

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,905	3,720	5,609	6,419	9,020	8,844	14,467	16,829	20,520	19,658
Cash & Equivalents	46	145	196	83	171	821	1,462	550	459	236
Accounts Receivable	104	100	129	175	265	247	366	537	785	954
Total Liabilities	1,560	2,338	3,502	3,165	5,185	4,283	7,439	9,485	12,074	11,064
Long-Term Debt	1,422	2,175	3,323	2,909	4,899	4,037	7,024	8,865	11,283	10,268
Shareholder's Equity	1,344	1,382	2,102	3,248	3,821	4,547	7,028	7,339	8,440	8,593
LTD/E Ratio	1.06	1.57	1.58	0.90	1.28	0.89	1.00	1.21	1.34	1.20

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.8%	1.5%	3.0%	3.7%	3.8%	11.4%	3.2%	2.8%	3.5%	4.5%
Return on Equity	8.1%	3.7%	8.0%	8.4%	8.2%	24.3%	6.5%	6.0%	8.3%	10.6%
ROIC	4.0%	1.6%	3.1%	3.9%	3.9%	11.7%	3.3%	2.9%	3.7%	4.7%
Shares Out.	151.4	170.0	236.7	320.5	364.4	381.0	520.9	579.9	599.8	597.5
Revenue/Share	1.59	1.83	2.02	2.07	2.01	2.14	1.99	2.36	2.62	2.58
FCF/Share	0.92	0.88	0.95	1.01	1.03	1.23	1.15	1.16	1.38	1.23

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

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