



National Health Investors Inc (NHI)

Updated February 22nd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	9.8%	Market Cap:	\$2.5 B
Fair Value Price:	\$56	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	03/30/2023
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date¹:	05/05/2023
Dividend Yield:	6.7%	5 Year Price Target	\$68	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

National Health Investors is an REIT focused on healthcare facilities. Some of the healthcare facilities NHI invests in are independent living facilities, senior-living campuses, and medical office buildings. NHI specializes in sale-leaseback, joint-venture, mortgage, and mezzanine financing. The company was incorporated in 1991 and is headquartered in Tennessee. National Health Investors had raised its dividend for 19 years, but then slashed it in 2021. This healthcare facility REIT has a market capitalization of \$2.5 billion.

On December 31st, 2022, NHI had investments in 94 senior housing properties, 65 skilled nursing facilities, and one hospital across 32 states. During 2022, rental income was \$218 million and made up 78% of income.

On February 21st, 2023, National Health Investors reported fourth quarter and full year 2022 results. Normalized FFO per diluted common share for the quarter was \$0.85, a decrease from \$1.06 in the prior year quarter.

For the full year, National Health achieved normalized FFO of \$4.30 per share, a 6.5% decline from \$4.60 in 2021.

The company sold 39 underperforming properties in the year for \$340 million to optimize the portfolio. During 2022, the company repurchased roughly 2.5 million shares of its common stock for about \$154 million.

National Health Investors initiated normalized FFO guidance of \$4.24 to \$4.30 for FY 2023. The company also expects weighted average diluted common shares of 43.5 million. Shares of National Health Investors shed nearly 7% following the quarterly release.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFOPS	\$3.43	\$3.75	\$4.10	\$4.39	\$4.75	\$5.04	\$5.10	\$5.29	\$4.60	\$4.30	\$4.27	\$5.20
DPS	\$3.12	\$3.08	\$3.40	\$3.60	\$3.80	\$4.00	\$4.20	\$4.41	\$4.01	\$3.60	\$3.60	\$3.78
Shares²	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7	43.4	43.5	50.0

National Health Investors has been able to generate a stream of fairly predictable and consistent adjusted funds from operations (AFFO). In the last 9 years AFFO has grown by 2.5% on average, but this has slowed in recent years and resulted in a 5-year AFFO growth rate of -2.0%.

Shares outstanding have grown by nearly 5% annually over the last decade, which is somewhat normal for an REIT. The number of shares being issued is not outrageous, but makes it more difficult to grow AFFO on a per-share basis.

Increased investment activity through financing or purchasing more healthcare real estate, as well as improved collections, and improved occupancies should see NHI continue to grow. We are forecasting 4.0% average annual AFFO growth over the intermediate term.

The corporation will pursue acquisitions and diversify opportunistically, with the main focus on triple-net senior housing and skilled nursing. The company expects to further diversify across asset, tenant, and geography. National Health has

¹ Estimate

² In millions

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paid special dividends a few times in the past, most recently in 2011 and 2013. With the 2021 dividend cut, we estimate that NHI will potentially resume growing the dividend at no more than 1% to maintain flexibility in the following years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	18.0	16.6	15.8	16.2	16.0	14.4	15.7	12.1	14.0	13.5	12.6	13.0
Avg. Yld.	4.5%	4.8%	5.0%	4.9%	4.8%	5.4%	5.1%	6.6%	6.4%	6.1%	6.7%	5.6%

National Health Investors has traded at a P/E ratio of 15.2 on average in the past nine years, and 13.9 on average in the past five years. While shares trade at 12.6 times estimated 2023 AFFO, we believe fair value is 13.0 times AFFO, which could lead to a 0.6% annual gain due to valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	91%	82%	83%	82%	80%	79%	82%	83%	87%	84%	84%	73%

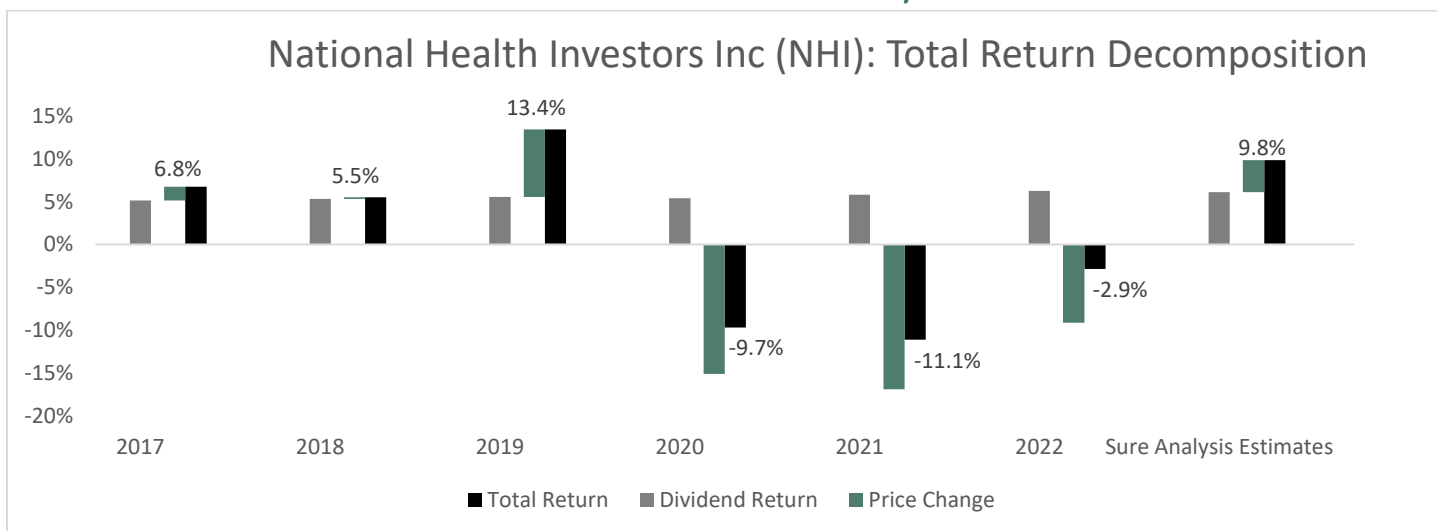
While NHI does not have a strong competitive advantage over other healthcare REITs, the corporation believes that they have an advantage in accessing debt markets due to a strong balance sheet. The company is highly diversified across tenant, geography and asset type which is also advantageous. During the great recession, share price did not fall as much as the overall market, and in fact, FFO per share grew from 2008 to 2010.

Target leverage is set at 4x – 5x Net Debt to Adjusted Annualized EBITDA, and the company targets a 60/40 equity/debt funding mix. At the end of Q4 2022, NHI's leverage ratio was 4.7X, within target range. While the payout ratio appeared to be stable in the last few years, NHI still opted to preemptively slash the dividend in 2021, thus we would not rely on it to consistently grow the dividend from here on out.

Final Thoughts & Recommendation

While National Health Investors has a history of performing well, weak occupancy and problems with specific, large partners led the company to sell a meaningful portion of their properties recently. The corporation trades below our estimated fair value, and has expected annualized total returns of 9.8%, the majority of which come from the 6.7% yield. NHI earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	118	178	229	248	279	295	318	333	299	278
Gross Profit					279	295	312	323	287	268
Gross Margin	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	98.2%	97.1%	96.1%	96.5%
SG&A Exp.	10	9	11	10	13	13	14	15	19	25
D&A Exp.	21	41	57	63	67	71	77	83	81	71
Operating Profit	87	130	164	178	198	204	220	225	186	143
Operating Margin	74.0%	73.0%	71.6%	71.5%	71.0%	69.3%	69.2%	67.6%	62.3%	51.5%
Net Profit	106	102	149	152	159	154	160	185	112	66
Net Margin	90.1%	57.2%	65.0%	61.0%	57.2%	52.4%	50.4%	55.6%	37.4%	23.9%
Free Cash Flow	104	126	164	177	198	208	241	232	211	185

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,456	1,983	2,133	2,404	2,546	2,751	3,042	3,120	2,839	2,507
Cash & Equivalents	11	3	13	5	3	5	5	43	37	19
Accounts Receivable	21	39	63	82	100	112	89	98	99	82
Total Liabilities	679	933	991	1,194	1,224	1,361	1,544	1,598	1,322	1,218
Accounts Payable	8	16	20	21	16	20	26	25	23	26
Long-Term Debt	617	863	914	1,116	1,145	1,282	1,440	1,499	1,243	1,148
Shareholder's Equity	767	1,040	1,133	1,210	1,322	1,390	1,498	1,512	1,507	1,270
LTD/E Ratio	0.81	0.83	0.81	0.92	0.87	0.92	0.96	0.99	0.82	0.90

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.8%	5.9%	7.2%	6.7%	6.4%	5.8%	5.5%	6.0%	3.8%	2.5%
Return on Equity	17.4%	11.2%	13.7%	12.9%	12.6%	11.4%	11.1%	12.3%	7.4%	4.8%
ROIC	10.3%	6.1%	7.5%	6.9%	6.6%	6.0%	5.7%	6.2%	3.9%	2.6%
Shares Out.	28.4	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7	44.8
Revenue/Share	4.15	5.31	6.08	6.35	6.77	7.00	7.28	7.45	6.53	6.21
FCF/Share	3.67	3.77	4.37	4.51	4.81	4.94	5.51	5.19	4.61	4.14

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

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