



# Universal Health Realty Income Trust (UHT)

Updated February 28<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$53.0	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Market Cap:</b>	\$691 M
<b>Fair Value Price:</b>	\$55.1	<b>5 Year Growth Estimate:</b>	2.5%	<b>Ex-Dividend Date:</b>	3/15/23 <sup>1</sup>
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.8%	<b>Dividend Payment Date:</b>	3/30/23 <sup>2</sup>
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$62	<b>Years Of Dividend Growth:</b>	37
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## Overview & Current Events

Universal Health Realty Income Trust operates as a real estate investment trust (REIT), specializing in the healthcare sector. The trust owns healthcare and human service-related facilities. Its property portfolio includes acute care hospitals, medical office buildings, rehabilitation hospitals, behavioral healthcare facilities, sub-acute care facilities and childcare centers. The trust was founded in 1986 and currently has a market capitalization of \$691 million. Universal Health's portfolio consists of 69 properties in 20 states.

On February 27<sup>th</sup>, 2023 Universal Health Realty Income Trust released Q4 and FY2022 results. For Fiscal 2022, the company's Funds from Operations (FFO) were \$48.8 million, or \$3.54 per diluted share, compared to \$50.9 million, or \$3.69 per diluted share, during the twelve-month period of 2021. The decrease in FFO of \$2.0 million, or \$0.15 per diluted share, during the twelve months of 2022 compared to the full year of 2021 was primarily due to a \$750,000, or \$0.06 per diluted share, decrease in adjusted net income in 2022 as compared to 2021. Additionally, there was a \$1.3 million, or \$0.09 per diluted share, decrease in depreciation and amortization expense incurred on the company's consolidated and unconsolidated investments.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO</b>	\$2.75	\$2.78	\$2.88	\$3.09	\$3.10	\$3.28	\$3.35	\$3.29	\$3.61	\$3.54	<b>\$3.67</b>	<b>\$4.15</b>
<b>DPS</b>	\$2.49	\$2.52	\$2.56	\$2.60	\$2.64	\$2.68	\$2.72	\$2.76	\$2.76	\$2.84	<b>\$2.86</b>	<b>\$3.00</b>
<b>Shares<sup>3</sup></b>	12.9	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	<b>13.8</b>	<b>14.0</b>

For REITs, it is better to use FFO rather than EPS, as traditional GAAP earnings is influenced by depreciation, which is a significant *non-cash* expense for a real estate trust. Going forward, Universal Health will benefit from changing demographics. The U.S. is an aging society, with over 70 million Baby Boomers, those generally born between 1946 and 1964. As the sizable Baby Boomer generation ages, demand for healthcare facilities is poised to grow. REITs that own healthcare properties, such as Universal Health, are in prime position to capitalize on the changing demographic landscape. Universal Health's growth will be accomplished by rising rents on existing properties, and by acquiring new properties. This is somewhat offset on a per share basis as a result of raising funds via issuing equity. Overall, we anticipate low-single-digit (2.5%) annualized growth over the intermediate-term, in-line with the trust's very consistent past.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>P/FFO</b>	14.6	17.3	17.4	21.2	24.2	18.7	34.0	18.0	16.0	13.5	<b>14.4</b>	<b>15.0</b>
<b>Avg. Yld.</b>	6.2%	5.2%	5.1%	4.0%	3.5%	4.4%	2.4%	4.7%	4.8%	5.9%	<b>5.4%</b>	<b>4.8%</b>

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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Over the past decade, shares of Universal Health have traded hands with an average Price-to-FFO of ~17. This was marked by a considerable multiple expansion coming out of the recession – starting at 11 and since growing to 34 times FFO recently before falling to today’s level of 14.4. While the business has proven itself to be very stable, due to the mediocre growth prospects, we are not willing to assign a valuation above the historical average. That said, shares are currently undervalued relative to our fair value estimate of 15.

Meanwhile, the dividend ought to add nicely to shareholder returns, although we do not expect a lot of growth from here given the already fairly high payout ratio.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	91%	91%	89%	84%	85%	82%	81%	84%	76%	80%	78%	72%

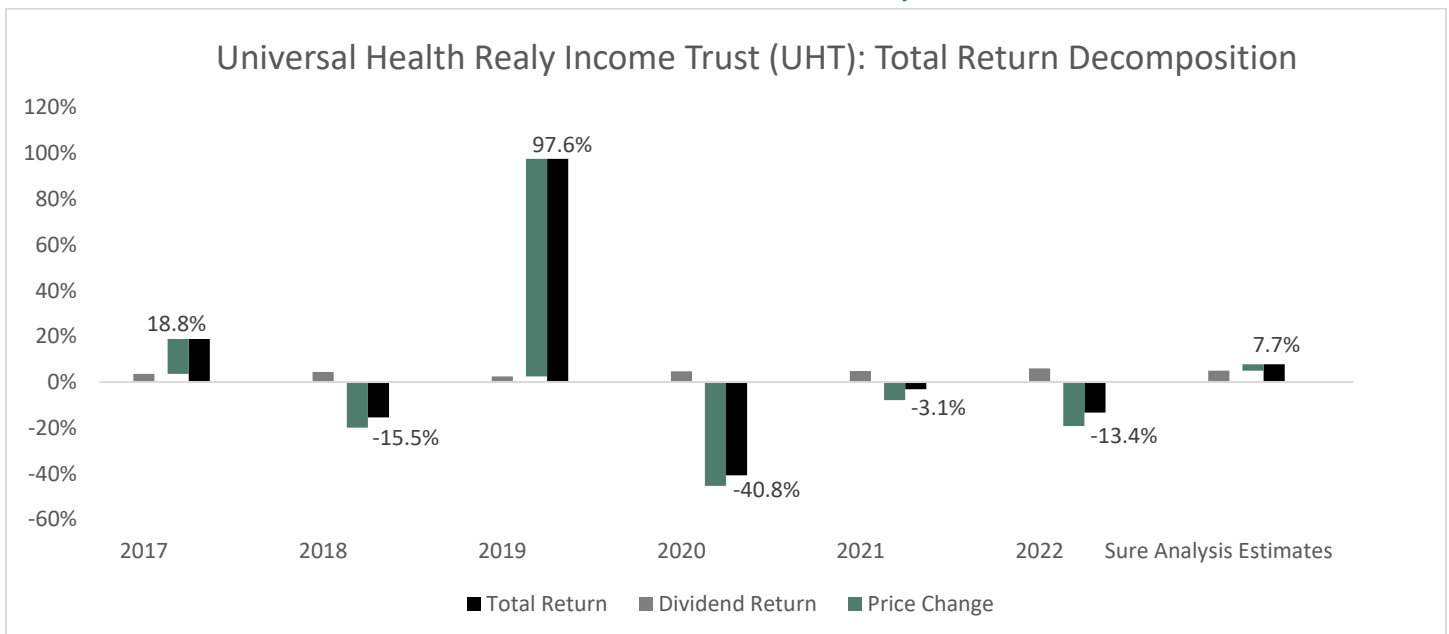
Universal Health does not have significant competitive advantages, in our view. As a small-cap trust, Universal Health is considerably smaller than other healthcare REITs. Universal Health can be expected to fare relatively well during economic downturns, but it is not immune from recessions. The trust remained profitable during the Great Recession of 2007-2009, and it continued to raise its dividend each year. However, it did see FFO decline slightly in 2010 and 2011.

Universal Health has a nice dividend yield and a secure payout. These are arguably the most important metrics for income investors. REITs are required to distribute at least 90% of their taxable income, and in exchange, do not pay income tax at the top level. The trust has also increased its dividend for over three consecutive decades.

## Final Thoughts & Recommendation

Universal Health has increased its dividend each year for many years, exemplifying the consistency of the business model. Moreover, it is in an industry that ought to see demand for many decades to come and shares currently trade below historical multiples and offer an attractive 5.4% dividend yield. The bad news is that projected annualized growth is still not high. Collectively, UHT shares earn a Hold rating as the 7.7% total annualized return potential stemming primarily from the attractive dividends make it a decent risk-adjusted holding for dividend growth investors.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	54	60	64	67	72	76	77	78	84	91
<b>Operating Profit</b>	19	19	21	23	24	27	26	26	29	31
<b>Operating Margin</b>	34.5%	32.6%	32.7%	33.8%	33.4%	35.0%	33.4%	33.3%	34.3%	33.8%
<b>Net Profit</b>	13	52	24	17	46	24	19	19	109	21
<b>Net Margin</b>	24.3%	86.2%	37.0%	25.7%	63.1%	31.7%	24.6%	24.9%	130%	23.3%
<b>Free Cash Flow</b>	27	17	21	(20)	37	39	38	42	35	33

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	373	429	459	525	490	484	489	494	598	608
<b>Cash &amp; Equivalents</b>	3	4	4	4	3	5	6	6	23	8
<b>Accounts Receivable</b>	5	6	6	8	9	10	11	11	12	14
<b>Goodwill &amp; Int. Ass.</b>	21	23	20	24	21	17	15	12	10	9
<b>Total Liabilities</b>	208	224	263	333	279	285	307	335	363	378
<b>Long-Term Debt</b>	200	213	252	316	256	261	274	295	329	343
<b>Shareholder's Equity</b>	166	205	195	191	211	199	182	159	235	229
<b>LTD/E Ratio</b>	1.21	1.04	1.29	1.65	1.22	1.32	1.51	1.86	1.40	1.50

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	3.5%	12.9%	5.3%	3.5%	9.0%	5.0%	3.9%	4.0%	20.0%	3.5%
<b>Return on Equity</b>	7.7%	27.8%	11.9%	8.9%	22.7%	11.8%	10.0%	11.4%	55.4%	9.1%
<b>ROIC</b>	3.6%	13.2%	5.5%	3.6%	9.4%	5.2%	4.1%	4.3%	21.4%	3.7%
<b>Shares Out.</b>	12.9	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8
<b>Revenue/Share</b>	4.27	4.62	4.81	4.98	5.31	5.55	5.61	5.67	6.11	6.57
<b>FCF/Share</b>	2.10	1.33	1.61	(1.46)	2.71	2.83	2.73	3.05	2.52	2.41

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

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