Community Healthcare Trust Inc (CHCT)

Updated May 7th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	13.9%	**Market Cap:**	$893 M
Fair Value Price:	$42	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date[1]:**	06/11/2023
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date[1]:**	06/26/2023
Dividend Yield:	4.9%	**5 Year Price Target**	$60	**Years Of Dividend Growth:**	7
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Community Healthcare Trust is an REIT which owns income-producing real estate properties linked to the healthcare sector, such as physician offices, specialty centers, behavioral facilities, inpatient rehabilitation facilities, and medical office buildings, in the trust's target sub-markets within the United States. The Trust owns 181 properties in 34 states, totaling 4.0 million square feet. Community Healthcare Trust trades on the NYSE under the ticker symbol CHCT and is headquartered in Franklin, Tennessee. CHCT has a market capitalization of $893 million.

On May 2nd, 2023, Community Healthcare Trust reported first quarter results for the period ending March 31st, 2023. Funds from operations (FFO) per share declined to $0.09, from $0.56 in the prior year quarter. Adjusted FFO per share, however, rose by one penny to $0.62.

During the quarter, Community Healthcare acquired 7 real estate properties for $23.4 million. The properties were 100% leased with lease expirations through 2031. The trust has four properties under definitive purchase agreements, with a purchase price of roughly $19.7 million expected to close in Q2 2023. Additionally, nine more properties are under definitive purchase agreements expected to close throughout 2023, 2024 and 2025 for an aggregate purchase price of $215 million.

The board of directors passed a 0.6% increase to the quarterly dividend to $0.45 per share, or an annualized rate of $1.80 per share. CHCT has increased its dividend every quarter since their IPO.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFOPS				$1.41	$1.41	$1.53	$1.67	$2.03	$2.20	$2.49	***$2.40***	***$3.45***
DPS				$1.53	$1.57	$1.61	$1.65	$1.69	$1.73	$1.77	***$1.80***	***$1.99***
Shares[2]				11.3	14.8	17.7	18.7	23.1	24.3	23.8	***24.0***	***30.0***

Community HealthCare Trust was made public in 2016, so there exists only six years of complete financial results from which to base future estimates off. In the five-year period from 2017 through 2022, CHCT grew funds from operations by 12% compounded annually, which is quite strong. Amid the COVID pandemic, the trust continued growing. We expect that the Trust can continue compounding AFFO per share at roughly 7.5% annualized from here on out.

The trust will grow their healthcare property portfolio through acquisitions of non-urban healthcare facilities, which provide stable revenue growth and long-term cash flows. CHCT avoids urban properties to avoid the competition from other REITs, which increases their potential for more attractive risk-adjusted returns. The trust acquires primarily individual properties worth between $5 million and $30 million. Healthcare-related real estate rents and valuations are generally more stable than other property types due to favorable demographic trends and the rising demand for healthcare, regardless of the economic climate.

[1] Estimate
[2] In millions

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The trust's network of relationships in the healthcare market has allowed for CHCT to acquire healthcare properties in target markets from third-party owners of existing healthcare facilities, physician owners and with healthcare providers through sale/leaseback transactions.

Existing shareholders can expect to be diluted over the long-term, as CHCT has increased their outstanding shares by 6.3% annually over the trailing five years. Despite this increasing number of shares, FFO growth still came in strong over that period, so CHCT appears to be making good investments.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO				14.5	18.0	18.4	23.7	21.5	21.6	15.2	***15.2***	***17.5***
Avg. Yld.				6.8%	6.1%	5.7%	4.2%	3.9%	3.5%	4.5%	***4.9%***	***3.3%***

Since IPO, Community Healthcare has traded at an average P/AFFO ratio of 19.0. The average P/AFFO has trended upwards since 2017 until 2022, and today we rate fair value to be roughly 17.5 times FFO. Thus, we believe shares today are undervalued, implying a modest valuation tailwind. The 4.9% yield today is in-line with the average yield of 5.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout					111%	105%	99%	83%	78%	71%	***75%***	***58%***

The trust's payout started off in dangerous territory above 100% of funds from operations. Still, the trust kept on growing the dividend every single quarter. As FFO grew over time, the payout ratio declined to fairer levels. The 83% payout ratio of 2020 was when the trust began covering the dividend with FFO, and it appears the payout ratio will continue to moderate as we estimate FFO to outgrow the dividend.

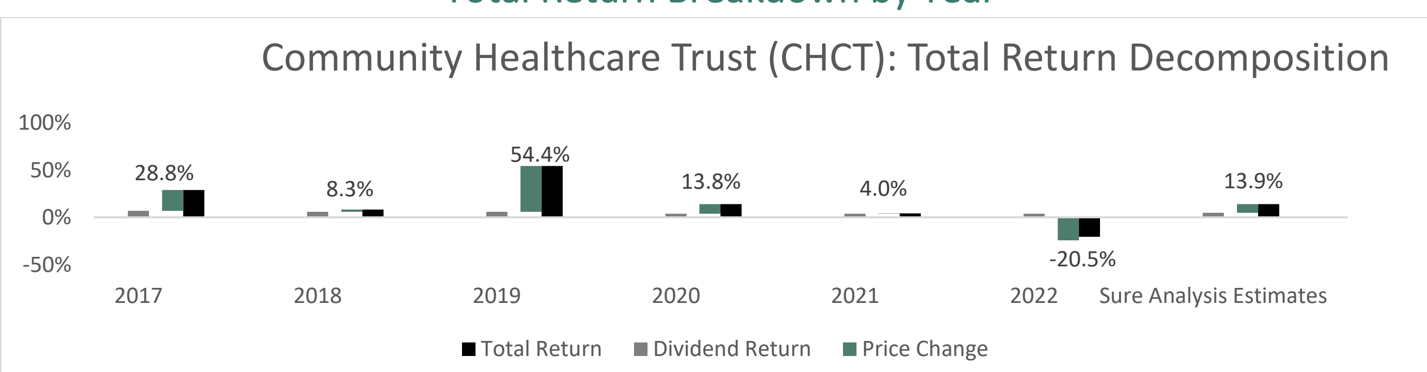
Community Healthcare is somewhat recession resistant, as it owns properties which must operate in both good and bad financial times, but this does not completely prevent the threat of partners and tenants facing financial difficulties.

CHCT's competitive advantage lies in its management's strong network of relationships to take advantage of in making attractive acquisitions and its focus on non-urban healthcare properties which result in higher risk-adjusted returns, but we would only call this a moderately strong advantage amongst its peers.

Final Thoughts & Recommendation

Community Healthcare has a short track record of financial results; however, it has grown funds from operations in this time quite strongly. Additionally, the trust is dedicated to the dividend which has increased every quarter since IPO. We estimate that CHCT trades 13% below fair value, and offers 13.9% in annualized total returns. We rate CHCT as a buy.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue			9	25	37	49	61	76	91	98
Gross Profit			7	20	29	39	49	62	75	81
Gross Margin			76.7%	81.2%	76.7%	79.5%	79.9%	82.0%	83.3%	83.0%
SG&A Exp.			2	3	4	6	8	9	12	15
D&A Exp.			5	13	18	20	23	26	31	33
Operating Profit			-1	4	7	13	19	28	33	34
Operating Margin			-13.1%	15.4%	18.5%	27.7%	30.7%	36.9%	36.3%	34.7%
Net Profit			-1	3	4	4	8	19	22	22
Net Margin			-0.2	0.1	0.1	0.1	0.1	0.3	0.2	0.2
Free Cash Flow			2	13	21	20	28	41	49	50
Income Tax				0	0	-2	1	0	0	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets			143	252	386	427	563	668	754	876
Cash & Equivalents			2	2	2	2	2	2	2	11
Accounts Receivable			1	3	5	5	8	10	14	18
Goodwill & Intang.			0	0	0	0	0	1	1	2
Total Liabilities			21	58	102	155	209	238	292	380
Long-Term Debt			17	51	93	148	194	212	266	353
Shareholder's Equity			122	194	283	272	353	430	462	497
LTD/E Ratio			0.14	0.26	0.33	0.54	0.55	0.49	0.57	0.71

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets				1.4%	1.1%	1.1%	1.7%	3.1%	3.2%	2.7%
Return on Equity			-2.4%	1.7%	1.5%	1.6%	2.7%	4.9%	5.0%	4.6%
ROIC				1.4%	1.1%	1.1%	1.7%	3.2%	3.3%	2.8%
Shares Out.				11.3	14.8	17.7	18.7	23.1	24.3	23.6
Revenue/Share			1.83	2.23	2.52	2.75	3.26	3.51	3.89	4.1
FCF/Share			0.45	1.18	1.42	1.13	1.50	1.92	2.11	2.11

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