LTC Properties (LTC)

Updated May 3rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	13.8%	**Market Cap:**	$1.4 B
Fair Value Price:	$41	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	5/22/2023
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.0%	**Dividend Payment Date:**	5/31/2023
Dividend Yield:	7.1%	**5 Year Price Target**	$50	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

LTC Properties is a REIT that invests in senior housing and skilled nursing properties. Its portfolio consists of approximately 50% senior housing and 50% skilled nursing properties. The REIT owns 215 investments in 29 states with 31 operating partners and has a market capitalization of $1.4 billion.

Just like other healthcare REITs, LTC benefits from a strong secular trend, namely the high growth of the population that is above 80 years old. This growth results from the aging of the baby boomers' generation and the steady rise of life expectancy thanks to sustained progress in medical sciences.

LTC is currently facing a headwind, the bankruptcy of Senior Care Centers, which is the largest skilled nursing operator in Texas. Senior Care filed for Chapter 11 bankruptcy in December-2018. Until 2018, it was generating 9.7% of the annual revenues of LTC and was the fifth largest customer of LTC.

In late April, LTC reported (4/27/23) financial results for the first quarter of fiscal 2023. Funds from operations (FFO) per share grew 10% over the prior year's quarter, from $0.60 to $0.66, but missed the analysts' consensus by $0.03. The increase in FFO per share resulted from higher rental income from transitioned properties, rent raises and the acquisition of some properties, partly offset by increased interest expense and operating costs due to high inflation. LTC is facing a headwind due to deferred payments from some tenants amid an economic slowdown. As a result, LTC has not provided any guidance for this year. Nevertheless, as the pandemic has subsided, LTC has begun to recover in the last three quarters. We expect the recovery to remain in place this year and still expect FFO per share of $2.70.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$2.29	$2.55	$2.77	$3.06	$3.10	$3.06	$3.08	$2.99	$2.35	$2.56	***$2.70***	***$3.28***
DPS	$1.91	$2.04	$2.07	$2.19	$2.28	$2.28	$2.28	$2.28	$2.28	$2.28	***$2.28***	***$2.28***
Shares[1]	33.1	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.8	***42.0***	***46.0***

Due to the aforementioned headwinds LTC has been facing in recent years, the REIT has grown its funds from operations at an average annual rate of only 1.2% in the last decade. Growth has stalled in the last five years, partly due to the bankruptcy of Senior Care. On the bright side, the REIT has most of its assets in states with the highest projected increases in the 80+ population cohort over the next decade. Moreover, LTC has been hurt by the pandemic, but this crisis has subsided. Due to the low comparison base formed this year, we expect 4.0% growth in FFO per share over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	17.2	15.3	15.6	15.7	15.4	13.6	15.1	12.7	16.0	14.8	***11.9***	***15.1***
Avg. Yld.	4.9%	5.2%	4.8%	4.6%	4.8%	5.5%	4.9%	6.0%	6.0%	6.0%	***7.1%***	***4.6%***

[1] In millions.

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LTC has traded at an average price-to-FFO ratio of 15.1 over the last decade and has consistently traded around this valuation level in the last nine years. LTC is now trading at a nearly 10-year low FFO multiple of 11.9, which is much lower than the historical average, due to the impact of inflation on the interest expense, operating costs and the present value of future earnings. We expect inflation to subside in the upcoming years. If the stock trades at its average valuation level in five years, it will enjoy a 5.0% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	83.4%	80.0%	74.7%	71.6%	73.5%	74.5%	74.0%	76.3%	97.0%	89.1%	***84.4%***	***69.4%***

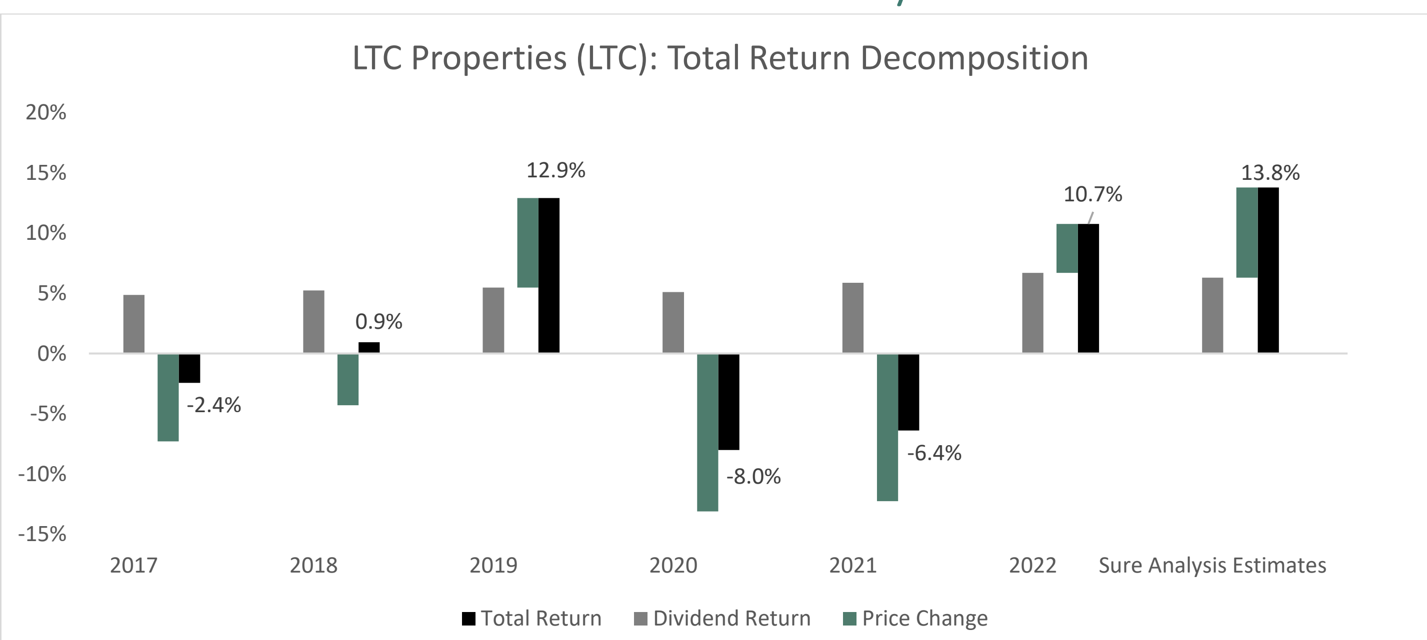
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by its stagnation in the last five years. In addition, the default of a major customer of LTC proved that the REIT has tenant bankruptcy risk.

LTC is offering an attractive 7.1% dividend yield. Since 2012, it has raised its dividend at a 2.3% average annual rate. However, it has frozen its dividend in the last six years due to the absence of underlying growth. Consequently, it is prudent to expect lackluster dividend growth for the foreseeable future. The payout ratio is 84% and the balance sheet is leveraged, with a debt to adjusted EBITDA ratio of 5.8x and an interest coverage ratio of 3.5. As a result, the dividend may come under pressure if the trust faces a strong headwind, such as a recession. Fortunately, the REIT does not have material debt maturities for the next five years.

Final Thoughts & Recommendation

LTC has failed to grow its FFO meaningfully for five consecutive years. With that said, we expect the REIT to overcome the headwinds from the bankruptcy of its major customer and the pandemic and return to growth mode this year. The stock could offer a 13.8% average annual return over the next five years thanks to 4.0% growth, its 7.1% dividend and a 5.0% valuation tailwind. It thus earns a buy rating but it is suitable only for patient investors.

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	105	119	136	162	168	169	185	159	155	175
SG&A Exp.	12	12	15	17	18	19	18	20	21	24
D&A Exp.	25	26	29	36	38	38	39	39	38	37
Operating Profit	67	82	91	108	113	112	111	85	79	97
Operating Margin	63.7%	68.7%	66.9%	66.7%	67.3%	66.3%	59.7%	53.7%	51.0%	55.4%
Net Profit	58	73	73	85	87	155	81	95	56	100
Net Margin	55.1%	61.7%	53.7%	52.7%	52.0%	91.9%	43.5%	59.8%	36.0%	57.1%
Free Cash Flow	86	94	102	104	104	114	122	116	91	106

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	931	965	1275	1395	1466	1514	1514	1459	1505	1656
Cash & Equivalents	7	25	13	8	5	3	4	8	5	10
Accounts Receivable	30	33	43	55	64	74	46	24	24	22
Total Liabilities	299	305	616	655	707	681	729	684	760	806
Long-Term Debt	277	281	572	609	668	645	693	649	723	768
Shareholder's Equity	594	622	659	740	755	825	777	767	737	828
LTD/E Ratio	0.44	0.43	0.87	0.82	0.88	0.78	0.89	0.85	0.98	0.93

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.7%	7.7%	6.5%	6.4%	6.1%	10.4%	5.3%	6.4%	3.8%	6.3%
Return on Equity	11.4%	12.1%	11.4%	12.2%	11.7%	19.6%	10.1%	12.3%	7.4%	12.8%
ROIC	6.9%	7.9%	6.7%	6.6%	6.3%	10.7%	5.4%	6.6%	3.9%	6.5%
Shares Out.	33.1	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.1
Revenue/Share	3.17	3.25	3.65	4.19	4.24	4.23	4.66	4.06	3.97	4.37
FCF/Share	2.63	2.61	2.74	2.74	2.66	2.90	3.08	2.96	2.33	2.64

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