Physicians Realty Trust (DOC)

Updated March 2nd, 2024 by Nathan Parsh

Key Metrics

Current Price:	$11.22	**5 Year CAGR Estimate:**	14.1%	**Market Cap:**	$2.8 B
Fair Value Price:	$15.45	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	04/03/24[1]
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.6%	**Dividend Payment Date:**	04/18/24
Dividend Yield:	8.2%	**5 Year Price Target**	$17.06	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Buy

Physicians Realty Trust was organized in April of 2013. The real estate investment trust, based in Milwaukee, Wisconsin, acquires, develops, owns and manage healthcare properties. These properties are leased to physicians, hospital and healthcare delivery systems. The trust's portfolio of 278 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust generates annual revenues of ~$528 million.

On October 30th, 2023, Physicians Realty Trust announced that it agreed to merge with Healthpeak Properties (PEAK) in an all-stock merger of equals valued at approximately $21 billion. The new REIT should benefit from much greater scale, with the new REIT having more than 750 properties in its portfolio. The vast majority of the portfolio will be in the medical office area. The trust expects to have annual savings of up to $60 million by the end of the second year. The transaction should close on or around March 1st, 2024.

On February 21st, 2024, Physicians Realty Trust announced fourth quarter and full year 2023 results for the period ending December 31st, 2023. For the quarter, revenue grew 2.2% to $135.5 million, but this was $2.5 million less than expected. Funds-from-operation, or FFO, of $0.26 matched the prior year's result. For the year, revenue improved 2.5% to $528.1 million while FFO of $0.97 compared unfavorably to $1.04 in 2023.

For the quarter, Medical Office Buildings, which comprise 98% of net leasable square footage, had same-store cash NOI growth of 1.0%. The portfolio was 94.3% leased at the end of the first quarter, down from 94.7% for the prior quarter. Weighted average leasing spreads for the year was 4.2% and tenant retention totaled 74%. The trust completed $17.8 million of investments during the quarter.

We expect Physicians Realty Trust to generate funds-from-operation of $1.03 in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	$0.70	$0.92	$0.98	$1.04	$1.08	$1.00	$1.05	$1.04	$1.04	$0.97	***$1.03***	***$1.14***
DPS	$0.90	$0.90	$0.90	$0.91	$0.92	$0.92	$0.92	$0.92	$0.92	$0.92	***$0.92***	***$0.92***
Shares[2]	37	77	130	168	188	194	216	228	240	250	***250***	***260***

FFO for Physicians Realty Trust has nearly quadrupled since becoming a publicly-traded trust. The trust has compounded FFO by a rate of 16.2% since forming, but much of this growth occurred in the early years of this time frame. Over the last five years, FFO has increased 0.6% annually. It should be noted that though growth has slowed recently, Physicians Realty Trust has drastically increased its share count in order to fund acquisitions. FFO has remained consistent even as the share count increased. Erring on the side of caution, we raise our expected FFO growth rate slightly to 2.0%. Applying this growth rate by our expected FFO per share could lead to FFO of $1.14 by 2029.

Physicians Realty Trust's dividend remained unchanged in 2015 and 2016, but was raised a $0.01 in each of the next two years. Given the lack of dividend growth since its IPO, and the already-high payout ratio, we are not projecting dividend growth for the trust over the next five years.

[1] Estimated date

[2] In millions of shares

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/FFO	23.7	18.3	19.3	17.3	14.8	18.9	17.0	18.1	18.1	13.7	***10.9***	***15.0***
Avg. Yld.	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	5.2%	4.9%	6.4%	6.9%	***8.2%***	***5.4%***

Shares of Physicians Realty Trust have fallen by 1.3% since our November 7th, 2023 report. Physicians Realty Trust has traded with an average price-to-funds-from-operation ratio of 17.2 since becoming public. Removing the trust's first year valuation, the average P/FFO ratio drops to 15.6. We have a 2029 target P/FFO ratio of 15.0 due to the expected benefit of the merger with Healthpeak Properties. Based off the current share price and expected FFO for 2024, the stock has a P/FFO ratio of 10.9. If shares were to trade at our target multiple, then multiple expansion would add 6.6% to annual returns.

Physicians Realty Trust's current yield is 270 basis points above the stock's 10-year average yield of 5.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	129%	98%	92%	88%	85%	92%	88%	88%	88%	95%	***89%***	***81%***

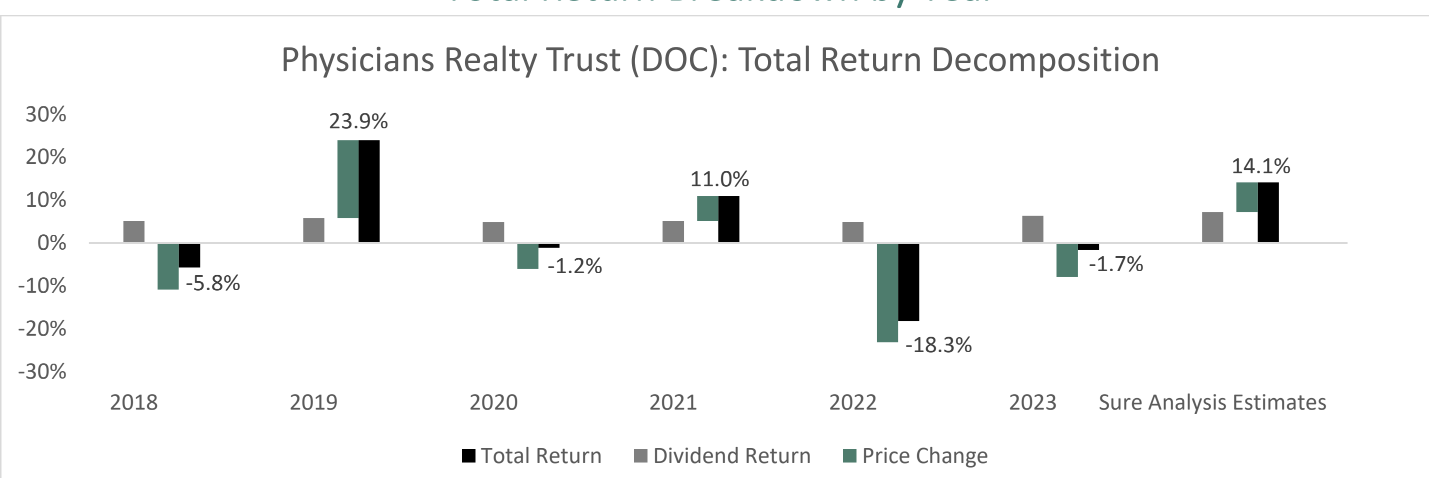
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years should not be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with the trust, though this could change following the merger.

Physicians Realty Trust key competitive advantage is that its properties are likely to be in demand regardless of economic conditions; consumers will seek out medical care during all parts of the economic cycle. The trust has also shown the ability maintain FFO while simultaneously issuing stock to help finance transactions.

Final Thoughts & Recommendation

After fourth quarter results, Physicians Realty Trust is now expected to return 14.1% annually, up from our previous estimate of 13.4%. This projection stems from a 2.0% FFO growth rate, an 8.2% starting dividend yield, and a mid-single-digit tailwind from multiple expansion. Physicians Realty Trust continues to enjoy a strong occupancy rate and low, but steady growth for its Medical Office Buildings portfolio. The pending merger with Healthpeak should also be a positive for shareholders. The stock continues to trade at a steep discount to our fair value estimate. As a result, we continue to rate shares of Physicians Realty Trust as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	53	129	241	344	423	415	438	458	527	543
Gross Profit	43	98	175	247	300	290	309	320	356	361
Gross Margin	81.0%	76.0%	72.6%	71.8%	71.0%	69.9%	70.7%	70.0%	67.5%	66.4%
SG&A Exp.	11	15	18	23	29	33	34	38	40	39
D&A Exp.	17	45	87	125	158	146	150	163	195	196
Operating Profit	15	38	70	98	113	111	126	125	126	131
Operating Margin	28.1%	29.4%	29.1%	28.6%	26.7%	26.7%	28.8%	27.2%	23.9%	24.1%
Net Profit	(4)	12	30	38	56	74	66	84	104	42
Net Margin	-7.6%	9.1%	12.4%	11.1%	13.3%	17.9%	15.1%	18.3%	19.8%	7.7%
Free Cash Flow	12	54	116	157	174	161	199	214	219	232

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	812	1,639	2,888	4,164	4,143	4,347	4,414	5,183	5,097	5,156
Cash & Equivalents	16	3	15	3	19	2	3	10	8	157
Accounts Receivable	8	19	42	58	73	82	91	100	113	118
Goodwill & Int. Ass.	73	205	301	459	452	390	407	498		
Total Liabilities	242	535	1,079	1,604	1,670	1,838	1,671	2,189	2,100	2,266
Accounts Payable	1	1	4	11	4	6	7	7	4	8
Long-Term Debt	216	484	991	1,477	1,533	1,634	1,439	1,912	1,818	1,973
Shareholder's Equity	535	1,021	1,738	2,473	2,380	2,409	2,641	2,836	2,870	2,764
LTD/E Ratio	0.40	0.47	0.57	0.60	0.64	0.68	0.54	0.67	0.63	0.71

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.7%	1.0%	1.3%	1.1%	1.4%	1.8%	1.5%	1.7%	2.0%	0.8%
Return on Equity	-1.0%	1.4%	2.1%	1.7%	2.2%	3.0%	2.5%	2.9%	3.5%	1.4%
ROIC	-0.8%	1.0%	1.4%	1.1%	1.4%	1.8%	1.6%	1.8%	2.1%	0.9%
Shares Out.	37	77	130	168	188	194	216	228	240	250
Revenue/Share	1.61	1.69	1.85	2.04	2.25	2.17	2.07	2.05	2.20	2.18
FCF/Share	0.37	0.71	0.89	0.93	0.93	0.84	0.94	0.96	0.91	0.93

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