



Global Medical REIT Inc. (GMRE)

Updated February 28th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9.37	5 Year CAGR Estimate:	8.4%	Market Cap:	\$635.4 M
Fair Value Price:	\$8.50	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/22/2024 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	04/11/2024
Dividend Yield:	9.0%	5 Year Price Target	\$9.85	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Global Medical REIT Inc. is a net-lease medical office REIT that acquires specialized healthcare facilities, which it leases to national healthcare systems and industry-leading physician groups. Its portfolio consists of gross investments in real estate worth around \$1.4 billion. They comprise 185 facilities with an aggregate of 4.7 million leasable square feet (LSF) and an aggregate of \$114.9 million worth of annualized base rent. Around 68% of the REIT's LSF contains Medical Office Buildings (MOB), 19% Inpatient Rehab Facilities (IRF), 4% surgical facilities, while the rest 9% houses other specialized facilities. The \$635.4 million company is based in Bethesda, Maryland.

On February 27th, 2024, Global Medical reported its Q4 results for the period ending December 31st, 2023. Revenues came in at nearly \$33 million, a decline of 9.2% year-over-year. The decline reflects the company's property dispositions completed during the first nine months of 2023, as well as the recognition of reserves for approximately \$1.1 million of rent related to one tenant, including approximately \$0.2 million of deferred rent.

AFFO fell by 3.6% to \$15.9 million due to lower revenues despite lower interest expenses as a result of deleveraging. On a per-share basis, AFFO came in one cent lower, at \$0.23. For the year, AFFO/share declined to \$0.91.

At the end of the quarter, occupancy stood at 96.5%, 20 bps lower sequentially. Further, the weighted average lease term for the REIT's portfolio was 5.8 years, while the weighted average annual rental escalations were 2.1%. For fiscal 2024, we now expect AFFO/share of \$0.85.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO/shr²	---	(\$0.88)	(\$0.03)	\$0.54	\$0.76	\$0.75	\$0.88	\$0.95	\$0.98	\$0.91	\$0.85	\$0.99
DPS	---	\$1.02	\$0.74	\$0.80	\$0.80	\$0.80	\$0.80	\$0.82	\$0.84	\$0.84	\$0.84	\$0.84
Shares³	---	0.3	9.3	19.6	22.0	33.9	46.3	60.6	65.5	65.6	65.6	120.0

Global Medical has rapidly grown its healthcare property portfolio, enjoying robust cash flows and high-quality tenants. The company's solid occupancy and extended average lease period are able to sustain stable financials even under adverse conditions such as those caused by COVID-19 in 2020, a year of record AFFOs at the time. We expect the main catalyst for future AFFO/share growth to be acquisitions and annual rent escalations. We retain our AFFO/share annual growth estimate at 3% through 2029 as a rising-rates environment could hurt the company's bottom-line growth prospects. Higher rates also explain our lower AFFO/share estimate for FY2024, despite ongoing deleveraging efforts.

In terms of its dividend, combined with its preferred shares, the company had been paying out more to shareholders than it was earning up until 2019. This was most likely to attract investors amid the continuous share issuances that it constantly executes to grow its portfolio. It was essential to keep the share price as high as possible during such times.

¹ Estimated dates based on past dividend dates.

² Being a REIT, AFFO/share is more meaningful metric than EPS. The trust reports high depreciation and amortization levels.

³ Share count is in millions.

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Eventually, Global Medical's AFFO/share caught up with the dividend post-2020. However, a rather tough healthcare real estate environment has pressured AFFO/share lately. We don't expect further dividend increases moving forward.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	---	---	---	17.0	12.5	15.3	14.2	15.7	12.9	9.9	11.0	10.0
Avg. Yld.	---	---	7.4%	8.7%	8.4%	7.0%	6.4%	5.4%	6.6%	10.2%	9.0%	8.5%

Global Medical's stock currently trades around 11 times our expected FY2024 AFFO/share. Given Global Medical humble growth prospects due to a tough healthcare real estate environment and elevated interest rates, we believe the current multiple modestly overvalues the stock. Our fair P/AFFO now stands at 10X. The 9% yield should attract investors to the stock. However, it also reflects the underlying risks attached to the REIT's payouts, including razor-thin coverage.

Safety, Quality, Competitive Advantage, & Recession Resiliency

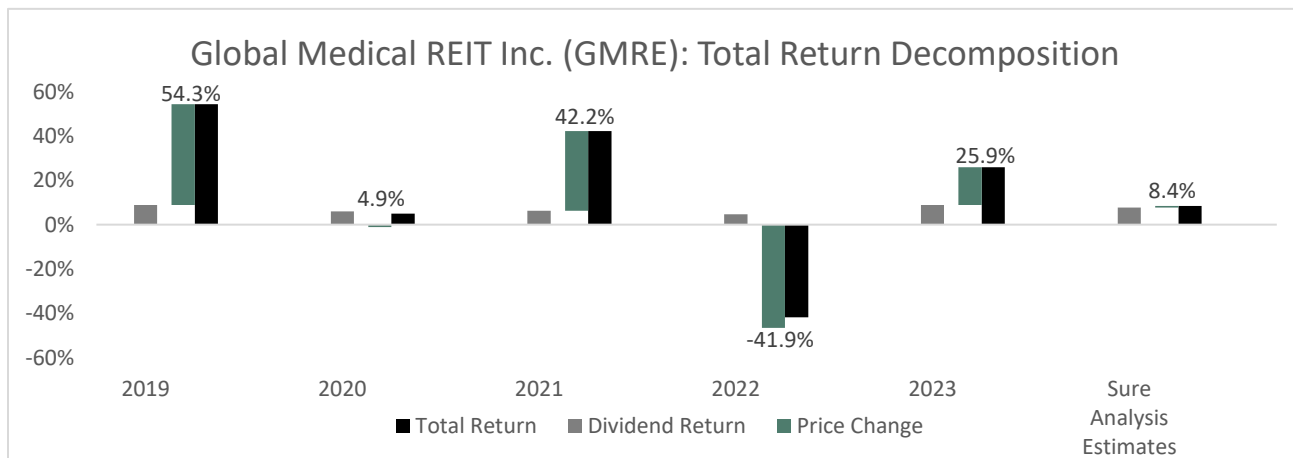
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	148%	105%	107%	91%	86%	86%	92%	99%	85%

Global Medical's dividend is likely not safe in the current market environment. Recent property dispositions by management to accumulate capital in order to deleverage reflects their defensive posture in the face of recent challenges. That said, the company does feature some qualities. Specifically, no state accounts for more than 19% of its rental revenues, while no tenant accounts for more than 7% of its annualized base rent. Hence, the company enjoys adequate diversification qualities. Still, due to its small market cap and immature profile compared to its largest peers, the company faces higher financing costs. Whether it is its hefty dividend (cost of share issuance) or its (admittedly better) cost of debt, which currently stands at 3.8%, the company is likely to be subject to lower profit margins until the macroeconomic landscape improves. Further, we don't see any meaningful competitive advantages, while the REIT's short history as a publicly-traded company is also something to be wary of.

Final Thoughts & Recommendation

Global Medical REIT is a niche healthcare real estate trust featuring robust rental revenues, satisfactory diversification, and an above-average dividend yield, which should remain covered. We forecast annualized returns of 8.4% through 2029, primarily powered by the 9.0% yield and our humble per-share growth estimate, offset by a 1.9% annual valuation headwind. Shares earn 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		1	2	8	30	53	71	94	116	137
Gross Profit			2	8	28	49	65	83	100	112
Gross Margin		0.0%	96.1%	99.1%	93.9%	93.0%	91.6%	88.4%	86.2%	81.8%
SG&A Exp.		0	1	6	9	10	13	16	16	17
D&A Exp.		0	1	2	10	18	26	37	47	58
Operating Profit		0	1	0	10	22	27	31	37	39
Operating Margin		15.6%	26.0%	1.3%	32.5%	41.8%	38.6%	32.6%	31.9%	28.5%
Net Profit		(0)	(2)	(6)	(0)	13	9	(2)	17.6	19
Net Margin		-68.7%	-78.0%	-77.4%	-0.1%	25.4%	13.1%	-2.1%	15.2%	13.9%
Free Cash Flow		0	(32)	(153)	(240)	(159)	(220)	(184)	(133)	(80)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets		24	65	227	472	636	885	1,101	1,263	1,393
Cash & Equivalents		0	9	20	5	4	3	6	7	4
Accounts Receivable		0	-	0	1	3	5	6	6	8
Goodwill & Int. Ass.			-	7	29	36	59	80	94	97
Total Liabilities		23	65	72	213	336	425	643	626	744
Accounts Payable			1	1	2	4	5	7	10	14
Long-Term Debt		22	64	67	201	315	386	587	571	694
Shareholder's Equity		2	(0)	155	171	194	355	370	548	558
LTD/E Ratio		12.72	(461)	0.43	0.81	1.17	0.90	1.32	0.92	1.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets		-1.8%	-3.6%	-4.3%	0.0%	2.4%	1.2%	-0.2%	1.5%	1.4%
Return on Equity		-20.8%	-203%	-8.2%	0.0%	7.4%	3.4%	-0.5%	3.8%	3.5%
ROIC		-1.8%	-3.7%	-4.5%	0.0%	2.5%	1.3%	-0.2%	1.6%	1.5%
Shares Out.			0.3	9.3	19.6	22.0	33.9	46.3	60.6	65.5
Revenue/Share		2.39	8.25	0.88	1.55	2.42	2.09	2.03	1.91	2.10
FCF/Share		0.52	(127)	(16.4)	(12.2)	(7.22)	(6.51)	(3.98)	(2.19)	(1.22)

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

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