



Medical Properties Trust (MPW)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$4.2	5 Year CAGR Estimate:	19.4%	Market Cap:	\$2.5B
Fair Value Price:	\$7.1	5 Year Growth Estimate:	0.2%	Ex-Dividend Date:	3/30/24 ¹
% Fair Value:	59%	5 Year Valuation Multiple Estimate:	11.2%	Dividend Payment Date:	4/12/24 ²
Dividend Yield:	14.3%	5 Year Price Target	\$7	Years of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Founded in 2003, Medical Properties Trust is the only pure-play hospital REIT today. It owns a well-diversified portfolio of over 400 properties which are leased to over 30 different operators. The great majority of the assets are general acute care hospitals, but show some diversification into other specialty hospitals, including inpatient rehabilitation and long-term acute care. The portfolio of assets is also well diversified across different geographies with properties in 29 states to mitigate the risk of demand and supply imbalances in individual markets. On top of its US portfolio, Medical Properties maintains a strategic exposure to key European markets, including Germany, the UK, Italy, and Australia. It currently trades at a market capitalization of \$2.5 billion.

On February 21st, Medical Properties released its Q4 results. In the fourth quarter of 2023, Medical Properties Trust (MPT) reported a net loss of (\$1.11) and Normalized Funds from Operations (NFFO) of \$0.36 per share. For the full-year 2023, the company recorded a net loss of (\$0.93) and NFFO of \$1.59 per share. Notably, these figures include approximately \$0.12 per share of revenue from Steward Health Care System (Steward) recognized before transitioning to cash basis accounting as of January 1, 2024. The fourth quarter's net loss incorporates approximately \$772 million, or \$1.29 per share, in non-recurring write-offs and impairments, primarily associated with Steward. Additionally, MPT entered agreements in February to divest five hospitals to Prime Healthcare at a 7.4% economic cap rate for \$350 million and sold its remaining noncontrolling interest in a tenant and two under-leased hospitals in South Carolina for combined proceeds of approximately \$17 million. Furthermore, in January, the company executed the sale of its syndicated term loan investment in MEDIAN, the parent company of Priory Group, for approximately \$115 million (£90 million).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	\$1.06	\$1.26	\$1.28	\$1.35	\$1.37	\$1.30	\$1.57	\$1.75	\$1.82	\$1.59	\$1.19	\$1.20
DPS	\$0.84	\$0.88	\$0.91	\$0.96	\$1.00	\$1.04	\$1.08	\$1.12	\$1.16	\$0.88	\$0.60	\$0.60
Shares³	170.0	236.7	320.5	364.4	381.0	520.9	579.9	596.7	598.3	599.1	599.1	615.0

Medical Properties' FFO/share growth has been strong over the past decade as it has gone from \$0.72 in 2011 to \$1.82 in 2022. That said, the forward outlook is much less certain given that many of its tenants are struggling financially and may get hit even harder in a recession due to the decline in elective medical procedures during times of economic hardship. Moreover, MPW is looking to sell a large number of its assets moving forward in order to pay down debt. As a result, we expect that FFO per share will decline over the next half-decade. The trust also recently slashed its dividend by nearly one-half and we expect it may need to cut the payout again in the future, as it continues to devote all of its excess cash towards strengthening its balance sheet and propping up some of its struggling tenants.

¹ Estimated

² Estimated

³ In millions

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
P/FFO	13.1	9.1	9.6	10.2	11.6	14.6	13.1	12.2	6.2	3.1	3.5	6.0
Avg. Yld.	6.0%	7.7%	7.4%	7.0%	6.3%	5.5%	5.3%	5.2%	10.3%	17.9%	14.3%	8.3%

Medical Properties' fair value multiple of FFO is estimated to be around 6 times as the company growth profile is being challenged by financial struggles among several of its tenants. Given that it currently trades at 3.5 times FFO, we believe that multiple expansion in the years ahead will add a significant tailwind to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

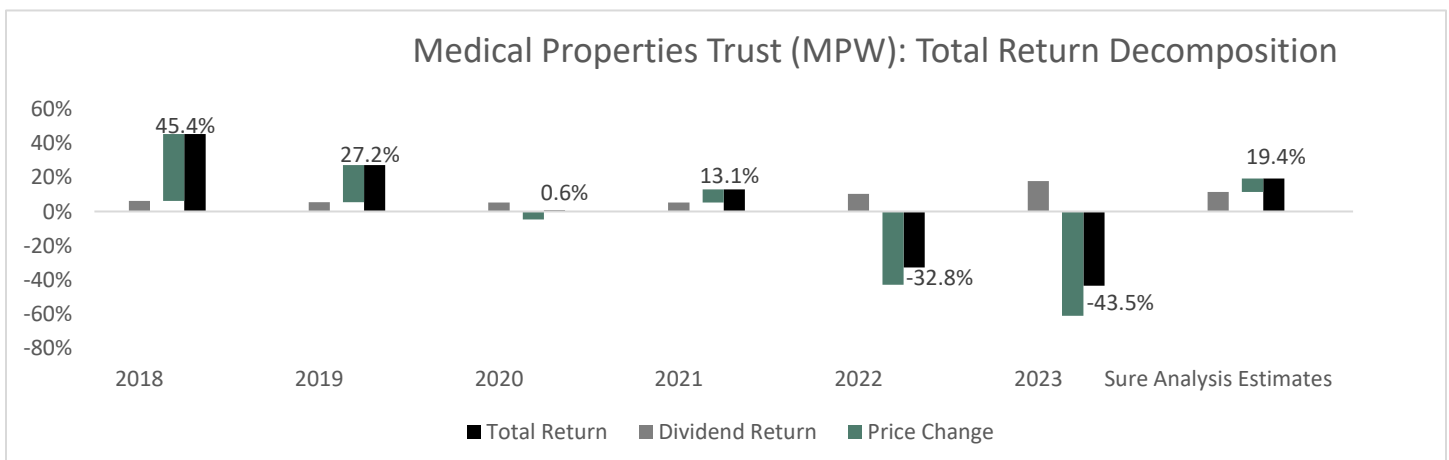
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	79%	70%	71%	71%	73%	80%	69%	64%	64%	55%	50%	50%

As a hospital REIT, Medical Properties is a defensive stock due to the fact that the medical industry is typically quite recession resistant. That being said, Medical Properties did not escape the last recession unscathed as its dividend was cut and its FFO/share fell 31% from peak-to-trough. However, its business is much better diversified and higher quality now, so we expect that it will perform better during the next recession. That said, it recently cut its dividend in order to deal with upcoming debt maturities in a rising interest rate environment and to help it deal with issues stemming from several of its largest tenants. Medical Properties enjoys several competitive advantages. First and foremost, as the only pure-play hospital REIT with over a decade-and-a-half of experience, it enjoys specialized operating and investing knowledge within its niche as well as a strong network advantage. Additionally, the trust's strong geographic diversification further cushions its cash flows from currency and economic impacts while also giving it numerous avenues for growth and opportunistic capital allocation/recycling.

Final Thoughts & Recommendation

Medical Properties Trust is certainly not for the risk-averse given the large short attacks being made against the company and the growing challenges that its tenants are facing. That said, it also trades at a deep discount to analyst estimates of NAV as well as a very low price-to-FFO ratio and its dividend yield remains very high despite recently being slashed. The outcome for this stock is likely very binary, as it will either flirt with bankruptcy due to mass tenant failures and a failure to deal with its upcoming debt maturities, or it will deliver exceptional total returns. As a result of the 19.4% annualized total return outlook, we rate the shares as a highly speculative Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	313	442	541	705	785	854	1,249	1,545	1,543	872
Gross Profit	311	438	538	699	775	830	1,224	1,506	1,497	830
Gross Margin	99.4%	99.1%	99.5%	99.2%	98.8%	97.2%	98.0%	97.5%	97.0%	95.2%
SG&A Exp.	37	44	49	59	81	96	132	146	160	146
D&A Exp.	55	72	98	132	141	157	276	334	346	616
Operating Profit	219	325	395	515	561	581	828	1,039	1,004	81
Operating Margin	70.2%	73.5%	73.0%	73.1%	71.5%	68.1%	66.3%	67.2%	65.1%	9.3%
Net Profit	51	140	225	290	1,017	375	431	656	903	(556)
Net Margin	16.2%	31.6%	41.6%	41.1%	130%	43.9%	34.5%	42.5%	58.5%	-63.8%
Free Cash Flow	150	207	264	362	449	494	618	812	739	506
Income Tax	0	2	(7)	3	1	(3)	31	74	56	(131)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,720	5,609	6,419	9,020	8,844	14,467	16,829	20,520	19,658	18,305
Cash & Equivalents	145	196	83	171	821	1,462	550	459	236	250
Accounts Receivable	100	129	175	265	247	366	537	785	954	681
Total Liabilities	2,338	3,502	3,165	5,185	4,283	7,439	9,485	12,074	11,064	10,671
Long-Term Debt	2,175	3,323	2,909	4,899	4,037	7,024	8,865	11,283	10,268	10,064
Shareholder's Equity	1,382	2,102	3,248	3,821	4,547	7,028	7,339	8,440	8,593	7,632
LTD/E Ratio	1.57	1.58	0.90	1.28	0.89	1.00	1.21	1.34	1.20	1.32

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	3.0%	3.7%	3.8%	11.4%	3.2%	2.8%	3.5%	4.5%	-2.9%
Return on Equity	3.7%	8.0%	8.4%	8.2%	24.2%	6.5%	6.0%	8.3%	10.6%	-6.9%
ROIC	1.6%	3.1%	3.9%	3.9%	11.7%	3.3%	2.9%	3.7%	4.7%	-3.0%
Shares Out.	170.0	236.7	320.5	364.4	381.0	520.9	579.9	596.7	598.3	599.1
Revenue/Share	1.83	2.02	2.07	2.01	2.14	1.99	2.36	2.62	2.58	1.46
FCF/Share	0.88	0.95	1.01	1.03	1.23	1.15	1.16	1.38	1.23	0.85

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

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