Sabra Health Care REIT Inc. (SBRA)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	$14.0	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$3.2 B
Fair Value Price:	$12.2	**5 Year Growth Estimate:**	3.3%	**Ex-Dividend Date:**	5/12/24[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	5/30/24[2]
Dividend Yield:	8.6%	**5 Year Price Target**	$14	**Years of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Sabra Health Care REIT Inc. is a self-managed REIT that, through subsidiaries, acquires, owns and develops real estate in the healthcare industry. The trust owns nursing homes, independent living centers, assisted living facilities and rehabilitation centers throughout the United States and Canada. The trust operates ~470 properties which are predominantly skilled nursing/traditional care facilities leased to operators under triple-net leases (a lease that requires the tenant to pay all real estate taxes, building insurance, and maintenance). The trust's plan for the years to come includes growing their investment portfolio while diversifying their portfolio by facility type and geography in the scope of the healthcare sector.

On February 27, 2024, Sabra Health Care REIT Inc. reported its fourth-quarter earnings for 2023. In the fourth quarter of 2023, Sabra Health Care REIT reported results per diluted common share, including net income of $0.07, FFO of $0.30, normalized FFO of $0.32, AFFO of $0.32, and normalized AFFO of $0.33. The EBITDARM coverage summary for various segments showed ratios ranging from 1.28x to 7.00x, with skilled nursing/transitional care at 1.78x, excluding Provider Relief Funds. Sabra expanded its relationship with Ignite Medical Resorts through the $38.8 million acquisition of two skilled nursing facilities with a cash lease yield of 9.5%. Additionally, the company's Board of Directors declared a quarterly cash dividend of $0.30 per share of common stock to be paid on February 29, 2024, to common stockholders of record as of February 13, 2024. For 2024, Sabra introduced earnings guidance ranges per diluted common share, including net income of $0.53 to $0.57, FFO of $1.33 to $1.37, normalized FFO of $1.34 to $1.38, AFFO of $1.38 to $1.42, and normalized AFFO of $1.39 to $1.43, assuming no acquisition or disposition activity for the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO/S	$1.62	$2.12	$2.51	$2.00	$1.99	$2.02	$1.78	$1.57	$1.49	$1.30	***$1.36***	***$1.60***
DPS	$1.50	$1.60	$1.67	$1.74	$1.80	$1.80	$1.35	$1.20	$1.20	$1.20	***$1.20***	***$1.30***
Shares[3]	59.2	65.2	65.3	178.3	178.3	205.3	210.7	230.9	231.2	231.5	***231.5***	***260***

Instead of EPS, we used funds from operations per share (FFO/S) as Sabra's primary growth metric. We used FFO/S because it more accurately communicates a REIT's true performance. Declining FFO/S in 2017 and 2018 was mainly attributed to their large acquisitions, since the trust has to fund the acquisitions through issuing more common stock, thus lowering their FFO/S. Sabra's most recent acquisition was in early 2018 when the trust acquired a 49% stake in TPG Real Estate for $353 million, with the acquisition contributing $1.5 billion to the trust's portfolio.

Over the past decade Sabra has seen its FFO per share decline overall due to headwinds in the skilled nursing sector. We expect the trust to begin recovering FFO/share over the next several years as demographic shifts provide a tailwind to cash flow per share.

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[1] Estimate

[2] Estimate

[3] Share count in millions

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The dividend has also been significantly cut in the past as a precaution to preserve liquidity, and we expect it to grow again, but at a slow pace as the trust works to strengthen its balance sheet and struggles through the current headwinds facing the sector.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	18.8	9.5	9.7	9.4	8.3	10.9	9.8	9.4	8.3	10.7	***10.3***	***9.0***
Avg. Yld.	4.9%	7.9%	6.9%	9.3%	10.9%	8.2%	7.7%	8.1%	9.7%	8.6%	***8.6%***	***9.0%***

Sabra's price to funds from operations ratio (P/FFO) has seen a lot of volatility over its history but has hovered around 10 over the past half-decade. Given the current headwinds, we are reducing our fair value estimate multiple to 9. As a result, Sabra is overvalued at current prices. We therefore expect valuation multiple contraction to reduce total returns over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2029
Payout	93%	75%	67%	87%	90%	89%	76%	76%	81%	92%	***88%***	***81%***

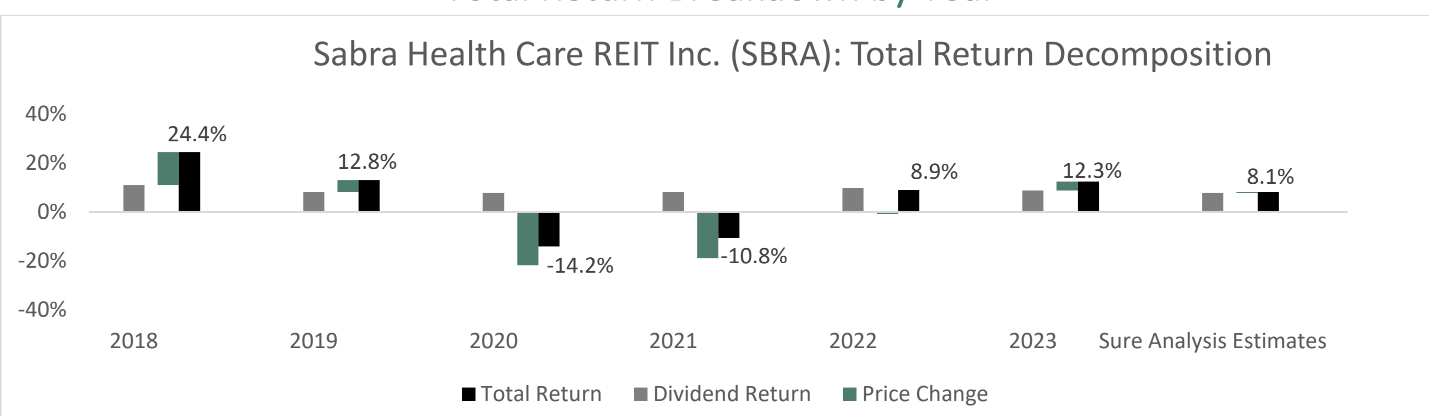
Sabra targets their business towards the aging population by offering them nursing homes and assisted living facilities. There is ample research that suggests Sabra's target audience, the senior population, is expected to grow rapidly going forward. Americans over the age of 75 are estimated to be the fastest growing segment of the population, growing at a compounded rate of 2.9% annually between years 2015-2020 and 3.6% between 2015-2025. From the same publication, it was said that the average life expectancy is expected to increase to 81.7 years by 2030 from 79.4 in 2015.

Sabra has not been around for a recessionary period, so to get an idea of how the trust would do in a recession, we looked at similar trusts to Sabra. The most applicable trust that we found is Omega Healthcare (OHI) given their similar operations and size. During the Great Recession, Omega was still able to increase their FFO/S by nearly 8%. We expect Sabra would also fare well in a recession since their operations are essential regardless of the state of the economy.

Final Thoughts & Recommendation

Overall, we expect total annualized returns of 8.1% over the next half decade, mainly driven by the lucrative 8.6% dividend yield, with expected multiple comprehension offsetting the expected FFO-per-share growth. As a result, we rate Sabra Health Care REIT as a Hold at current prices given its recession resiliency, decent growth potential, and attractive dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	184	239	261	408	623	662	599	570	625	648
SG&A Exp.	24	16	18	32	37	31	33	35	40	47
D&A Exp.	43	63	68	114	191	182	177	179	188	183
Operating Profit	111	144	163	227	306	340	256	211	235	222
Operating Margin	60.4%	60.4%	62.6%	55.6%	49.1%	51.3%	42.7%	37.0%	37.6%	34.2%
Net Profit	47	79	70	158	279	69	138	(113)	(78)	14
Net Margin	25.6%	33.2%	27.0%	38.8%	44.8%	10.4%	23.1%	-19.9%	-12.4%	2.1%
Free Cash Flow	85	121	176	136	361	372	355	356	316	301
Income Tax		1	1	1	3	3	1	2	1	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,065	2,469	2,266	7,032	6,665	6,069	5,986	5,967	5,748	5,386
Cash & Equivalents	62	7	26	519	50	39	59	112	49	41
Accounts Receivable			99	169	167	150	161	138	148	134
Goodwill & Int. Ass.			26	167	131	102	83	54	40	31
Total Liabilities	1,123	1,415	1,250	3,595	3,411	2,581	2,576	2,587	2,691	2,584
Long-Term Debt	1,091	1,380	1,211	3,394	3,232	2,402	2,372	2,394	2,507	2,414
Shareholder's Equity	942	1,054	1,016	3,433	3,250	3,488	3,409	3,380	3,056	2,803
LTD/E Ratio	1.16	1.31	1.19	0.99	0.99	0.69	0.70	0.71	0.82	0.86

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.9%	3.5%	3.0%	3.4%	4.1%	1.1%	2.3%	-1.9%	-1.3%	0.2%
Return on Equity	6.7%	8.0%	6.8%	7.1%	8.3%	2.0%	4.0%	-3.3%	-2.4%	0.5%
ROIC	2.9%	3.6%	3.0%	3.5%	4.2%	1.1%	2.4%	-2.0%	-1.4%	0.3%
Shares Out.	59.2	65.2	65.3	178.3	178.3	205.3	210.7	230.9	231.2	231.5
Revenue/Share	3.91	3.82	3.98	3.86	3.49	3.52	2.89	2.60	2.71	2.78
FCF/Share	1.82	1.94	2.69	1.28	2.02	1.98	1.71	1.63	1.37	1.29

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