



Universal Health Realty Income Trust (UHT)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$38.6	5 Year CAGR Estimate:	10.8%	Market Cap:	\$537 M
Fair Value Price:	\$44.0	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	3/15/24
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date:	3/29/24
Dividend Yield:	7.5%	5 Year Price Target	\$50	Years Of Dividend Growth:	39
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Buy

Overview & Current Events

Universal Health Realty Income Trust operates as a real estate investment trust (REIT), specializing in the healthcare sector. The trust owns healthcare and human service-related facilities. Its property portfolio includes acute care hospitals, medical office buildings, rehabilitation hospitals, behavioral healthcare facilities, sub-acute care facilities and childcare centers. The trust was founded in 1986 and currently has a market capitalization of \$537 million. Universal Health's portfolio consists of 69 properties in 20 states.

On February 28, 2024, Universal Health Realty Income Trust reported its Q4 2023 results. For the three-month period ending December 31, 2023, Universal Health Realty Income Trust (UHT) reported net income of \$3.6 million, or \$0.26 per diluted share, compared to \$5.6 million, or \$0.41 per diluted share, in the fourth quarter of 2022. The financial results for Q4 2023 included a loss on divestiture of approximately \$232,000, or \$0.02 per diluted share, related to the sale of a vacant specialty facility in Corpus Christi, Texas. Adjusting for this loss, the adjusted net income was \$3.8 million, or \$0.28 per diluted share, for Q4 2023, down from \$5.6 million, or \$0.41 per diluted share, in Q4 2022.

The decrease in adjusted net income was primarily due to increases in interest expenses, partially offset by an increase in income generated at various properties and a decrease in demolition expenses related to a facility in Chicago.

Additionally, funds from operations (FFO) for Q4 2023 were \$11.4 million, or \$0.82 per diluted share, compared to \$12.4 million, or \$0.90 per diluted share, in Q4 2022, primarily attributed to the decrease in adjusted net income, partially offset by an increase in depreciation and amortization expense.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$2.78	\$2.88	\$3.09	\$3.10	\$3.28	\$3.35	\$3.29	\$3.61	\$3.54	\$3.23	\$3.67	\$4.15
DPS	\$2.52	\$2.56	\$2.60	\$2.64	\$2.68	\$2.72	\$2.76	\$2.76	\$2.84	\$2.88	\$2.90	\$3.00
Shares¹	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	13.8	13.8	14.0

For REITs, it is better to use FFO rather than EPS, as traditional GAAP earnings are influenced by depreciation, which is a significant *non-cash* expense for a real estate trust. Going forward, Universal Health will benefit from changing demographics. The U.S. is an aging society, with over 70 million Baby Boomers, those generally born between 1946 and 1964. As the sizable Baby Boomer generation ages, demand for healthcare facilities is poised to grow. REITs that own healthcare properties, such as Universal Health, are in a prime position to capitalize on the changing demographic landscape. Universal Health's growth will be accomplished by rising rents on existing properties, and by acquiring new properties. This is somewhat offset on a per-share basis as a result of raising funds via issuing equity. Overall, we anticipate low-single-digit (2.5%) annualized growth over the intermediate term, in line with the trust's very consistent past.

¹ In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	17.3	17.4	21.2	24.2	18.7	34.0	18.0	16.0	13.5	10.4	10.5	12.0
Avg. Yld.	5.2%	5.1%	4.0%	3.5%	4.4%	2.4%	4.7%	4.8%	5.9%	7.6%	7.5%	6.0%

Over the past decade, shares of Universal Health have traded hands with an average price-to-FFO of ~17. This was marked by a considerable multiple expansion coming out of the recession – starting at 11 and since growing to 34 times FFO recently before falling to today’s level of 10.5. While the business has proven itself to be very stable, due to the mediocre growth prospects, we are not willing to assign a valuation above the historical average. Moreover, rising interest rates have pushed our fair value estimate down further. That said, shares are currently undervalued relative to our fair value estimate of 12. Meanwhile, the dividend ought to add nicely to shareholder returns, although we do not expect a lot of growth from here given the already fairly high payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	91%	89%	84%	85%	82%	81%	84%	76%	80%	89%	79%	72%

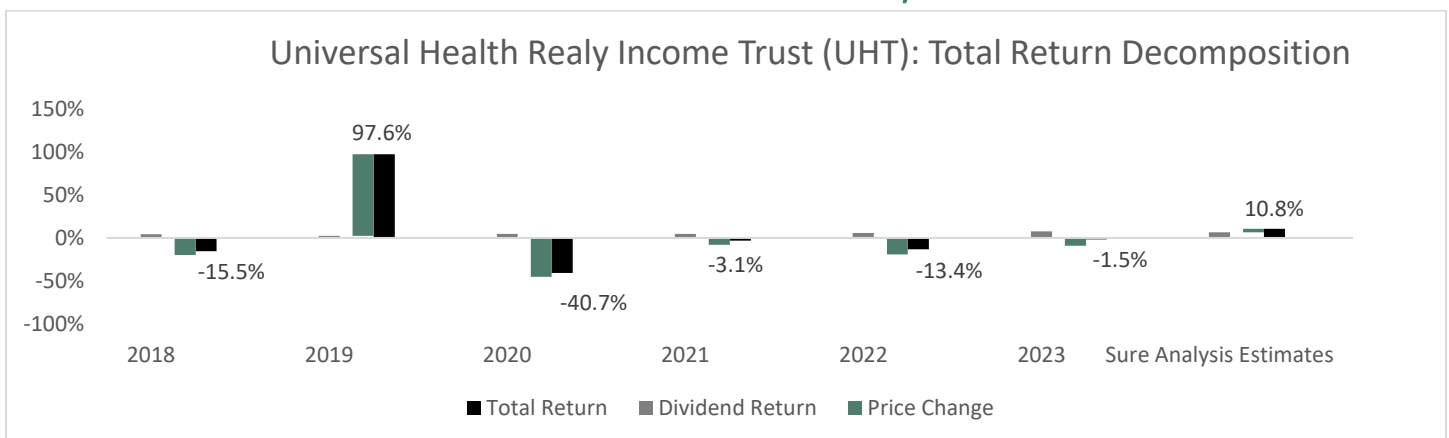
Universal Health does not have significant competitive advantages, in our view. As a small-cap trust, Universal Health is considerably smaller than other healthcare REITs. Universal Health can be expected to fare relatively well during economic downturns, but it is not immune from recessions. The trust remained profitable during the Great Recession of 2007-2009, and it continued to raise its dividend each year. However, it did see FFO decline slightly in 2010 and 2011.

Universal Health has a nice dividend yield and a secure payout. These are arguably the most important metrics for income investors. REITs are required to distribute at least 90% of their taxable income, and in exchange, do not pay income tax at the top level. The trust has also increased its dividend for over three consecutive decades.

Final Thoughts & Recommendation

Universal Health has increased its dividend each year for many years, exemplifying the consistency of the business model. Moreover, it is in an industry that ought to see demand for many decades to come and shares currently trade below historical multiples and offer an attractive 7.5% dividend yield. The bad news is that projected annualized growth is still not high. Collectively, UHT shares earn a Buy rating as the 10.8% annualized total return potential stemming primarily from the attractive dividends and potential valuation multiple expansion make it a decent risk-adjusted holding for income-focused investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	60	64	67	72	76	77	78	84	91	96
Operating Profit	21	22	23	25	25	26	25	27	26	28
Operating Margin	52	24	17	46	24	19	19	109	21	15
Net Profit	86.2%	37.0%	25.7%	63.1%	31.7%	24.6%	24.9%	130%	23.3%	16.1%
Net Margin	17	21	(20)	37	39	38	42	35	33	35
Free Cash Flow	60	64	67	72	76	77	78	84	91	96

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	429	459	525	490	484	489	494	598	608	596
Cash & Equivalents	4	4	4	3	5	6	6	23	8	8
Accounts Receivable	6	6	8	9	10	11	11	12	14	14
Goodwill & Int. Ass.	23	20	24	21	17	15	12	10	9	9
Total Liabilities	224	263	333	279	285	307	335	363	378	395
Long-Term Debt	213	252	316	256	261	274	295	329	343	359
Shareholder's Equity	205	195	191	211	199	182	159	235	229	201
LTD/E Ratio	1.04	1.29	1.65	1.22	1.32	1.51	1.86	1.40	1.50	1.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.9%	5.3%	3.5%	9.0%	5.0%	3.9%	4.0%	20.0%	3.5%	2.6%
Return on Equity	27.8%	11.9%	8.9%	22.7%	11.8%	10.0%	11.4%	55.4%	9.1%	7.2%
ROIC	13.2%	5.5%	3.6%	9.4%	5.2%	4.1%	4.3%	21.4%	3.7%	2.7%
Shares Out.	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	13.8
Revenue/Share	4.62	4.81	4.98	5.31	5.55	5.61	5.67	6.11	6.57	6.92
FCF/Share	1.33	1.61	(1.46)	2.71	2.83	2.73	3.05	2.52	2.41	2.56

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

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