



# LTC Properties (LTC)

Updated May 1<sup>st</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$1.4 B
<b>Fair Value Price:</b>	\$39	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	5/22/2024
<b>% Fair Value:</b>	85%	<b>5 Year Valuation Multiple Estimate:</b>	3.3%	<b>Dividend Payment Date:</b>	5/31/2024
<b>Dividend Yield:</b>	6.9%	<b>5 Year Price Target</b>	\$45	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

LTC Properties is a REIT that invests in senior housing and skilled nursing properties. Its portfolio consists of approximately 50% senior housing and 50% skilled nursing properties. The REIT owns 194 investments in 26 states with 32 operating partners and has a market capitalization of \$1.4 billion.

Just like other healthcare REITs, LTC benefits from a strong secular trend, namely the high growth of the population that is above 80 years old. This growth results from the aging of the baby boomers' generation and the steady rise of life expectancy thanks to sustained progress in medical sciences.

LTC has been facing a headwind in recent years, namely the bankruptcy of Senior Care Centers, which is the largest skilled nursing operator in Texas. Senior Care filed for Chapter 11 bankruptcy in December-2018. Until 2018, it was generating 9.7% of the annual revenues of LTC and was the fifth largest customer of LTC.

In late April, LTC reported (4/29/24) financial results for the first quarter of fiscal 2024. Funds from operations (FFO) per share grew 4.5% over the prior year's quarter, from \$0.66 to \$0.69, and exceeded the analysts' consensus by \$0.05. The increase in FFO per share resulted from higher rental revenue and higher interest income from mortgage loans, which more than offset increased interest expense amid 16-year high interest rates. LTC maintained its leverage ratio (Net Debt to EBITDA) at 5.5x, which is high for our comfort zone (max 5.0x). LTC is facing a headwind due to deferred payments from some tenants. While the pandemic has subsided, the REIT still exhibits lackluster business momentum. As a result, LTC provided lackluster guidance for this year, expecting FFO per share of \$2.63-\$2.65. Accordingly, we have raised our forecast from \$2.60 to \$2.64.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$2.55	\$2.77	\$3.06	\$3.10	\$3.06	\$3.08	\$2.99	\$2.35	\$2.56	\$2.62	<b>\$2.64</b>	<b>\$3.06</b>
<b>DPS</b>	\$2.04	\$2.07	\$2.19	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	<b>\$2.28</b>	<b>\$2.28</b>
<b>Shares<sup>1</sup></b>	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.8	42.0	<b>43.0</b>	<b>47.0</b>

Due to the aforementioned headwinds LTC has been facing in recent years, the REIT has failed to grow its funds from operations meaningfully over the last decade. Growth has stalled in the last six years, partly due to the bankruptcy of Senior Care. On the bright side, the REIT has most of its assets in states with the highest projected increases in the 80+ population cohort over the next decade. Moreover, LTC has been hurt by the pandemic, but this crisis has subsided. Due to the low comparison base formed this year, we expect 3.0% growth in FFO per share over the next five years.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/FFO</b>	15.3	15.6	15.7	15.4	13.6	15.1	12.7	16.0	14.8	12.9	<b>12.5</b>	<b>14.7</b>
<b>Avg. Yld.</b>	5.2%	4.8%	4.6%	4.8%	5.5%	4.9%	6.0%	6.0%	6.0%	6.8%	<b>6.9%</b>	<b>5.1%</b>

<sup>1</sup> In millions.

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LTC has traded at an average price-to-FFO ratio of 14.7 over the last decade and has consistently traded around this valuation level in the last decade. LTC is now trading at a FFO multiple of 12.5, which is lower than the historical average, due to the impact of 16-year high interest rates on the interest expense and the present value of future earnings. We expect inflation and interest rates to subside in the upcoming years. If the stock trades at its average valuation level in five years, it will enjoy a 3.3% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	80.0%	74.7%	71.6%	73.5%	74.5%	74.0%	76.3%	97.0%	89.1%	87.0%	<b>86.4%</b>	<b>74.5%</b>

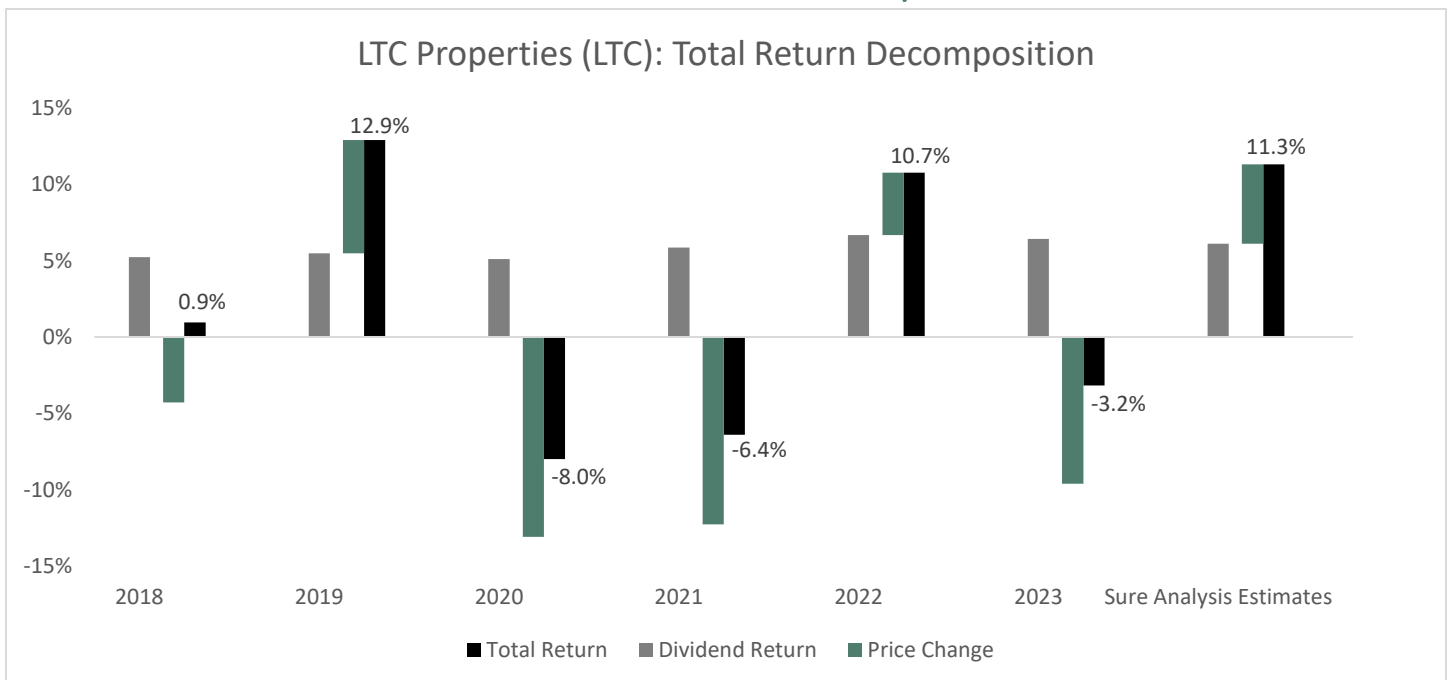
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by its stagnation in the last six years. In addition, the default of a major customer of LTC proved that the REIT has tenant bankruptcy risk.

LTC is offering an attractive 6.9% dividend yield. However, it has frozen its dividend in the last seven years due to the absence of underlying growth. Consequently, it is prudent not to expect dividend growth for the foreseeable future. The payout ratio is 86% and the balance sheet is leveraged, with a debt to adjusted EBITDA ratio of 5.5x and an interest coverage ratio of 2.8. As a result, the dividend may come under pressure if the trust faces a strong headwind, such as a recession. Fortunately, the REIT does not have material debt maturities for the next four years.

## Final Thoughts & Recommendation

LTC has failed to grow its FFO meaningfully for six consecutive years. With that said, we expect the REIT to overcome the headwinds from the bankruptcy of its major customer and the pandemic and return to growth mode next year. The stock could offer an 11.3% average annual return over the next five years thanks to 3.0% growth, its 6.9% dividend and a 3.3% valuation tailwind. It thus maintains its buy rating but it is suitable only for patient investors.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	119	136	162	168	169	185	159	155	175	197
<b>SG&amp;A Exp.</b>	12	15	17	18	19	18	20	21	24	24
<b>D&amp;A Exp.</b>	26	29	36	38	38	39	39	38	37	37
<b>Operating Profit</b>	82	91	108	113	112	111	85	79	97	117
<b>Operating Margin</b>	68.7%	66.9%	66.7%	67.3%	66.3%	59.7%	53.7%	51.0%	55.4%	59.4%
<b>Net Profit</b>	73	73	85	87	155	81	95	56	100	90
<b>Net Margin</b>	61.7%	53.7%	52.7%	52.0%	91.9%	43.5%	59.8%	36.0%	57.1%	45.7%
<b>Free Cash Flow</b>	94	102	104	104	114	122	116	91	106	104

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	965	1275	1395	1466	1514	1514	1459	1505	1656	1855
<b>Cash &amp; Equivalents</b>	25	13	8	5	3	4	8	5	10	20
<b>Accounts Receivable</b>	33	43	55	64	74	46	24	24	22	20
<b>Total Liabilities</b>	305	616	655	707	681	729	684	760	806	939
<b>Long-Term Debt</b>	281	572	609	668	645	693	649	723	768	891
<b>Shareholder's Equity</b>	622	659	740	755	825	777	767	737	828	881
<b>LTD/E Ratio</b>	0.43	0.87	0.82	0.88	0.78	0.89	0.85	0.98	0.93	1.01

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	7.7%	6.5%	6.4%	6.1%	10.4%	5.3%	6.4%	3.8%	6.3%	5.1%
<b>Return on Equity</b>	12.1%	11.4%	12.2%	11.7%	19.6%	10.1%	12.3%	7.4%	12.8%	10.2%
<b>ROIC</b>	7.9%	6.7%	6.6%	6.3%	10.7%	5.4%	6.6%	3.9%	6.5%	5.2%
<b>Shares Out.</b>	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.1	41.4
<b>Revenue/Share</b>	3.25	3.65	4.19	4.24	4.23	4.66	4.06	3.97	4.37	4.77
<b>FCF/Share</b>	2.61	2.74	2.74	2.66	2.90	3.08	2.96	2.33	2.64	2.52

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

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