National Health Investors Inc (NHI)

Updated May 7th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	5.2%	**Market Cap:**	$2.8 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date[1]:**	06/27/2024
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Dividend Payment Date[1]:**	08/02/2024
Dividend Yield:	5.5%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

National Health Investors is a REIT focused on healthcare facilities. Some of the healthcare facilities NHI invests in are independent living facilities, senior-living campuses, and medical office buildings. NHI specializes in sale-leaseback, joint-venture, mortgage, and mezzanine financing. The company was incorporated in 1991 and is headquartered in Tennessee. National Health Investors raised its dividend for 19 years, but then slashed it in 2021. This healthcare facility REIT has a market capitalization of $2.8 billion.

On March 31st, 2024, NHI had investments in 97 senior housing properties, 65 skilled nursing facilities, and one hospital across 31 states. During 2023, rental income was $249 million and made up 78% of income.

On May 6th, 2024, National Health Investors reported first quarter 2024 results. Normalized FFO per diluted common share for the quarter rose by one penny from the prior year quarter to $1.11.

During the quarter, National Health did not sell any properties. But subsequently, so far in Q2, it has sold two assisted living communities for net proceeds of roughly $4.6 million.

National Health Investors raised its 2024 guidance, now expecting normalized FFO per share of $4.37 to $4.43 (from $4.31 to $4.37 previously) for the full year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFOPS	$3.75	$4.10	$4.39	$4.75	$5.04	$5.10	$5.29	$4.60	$4.30	$4.33	***$4.40***	***$4.86***
DPS	$3.08	$3.40	$3.60	$3.80	$4.00	$4.20	$4.41	$4.01	$3.60	$3.60	***$3.60***	***$3.78***
Shares[2]	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7	43.4	43.4	***43.5***	***50.0***

National Health Investors has been able to generate a stream of fairly predictable and consistent adjusted funds from operations (AFFO) until 2021. Since 2014, AFFO has grown by 1.6% annually, but this has turned negative in recent years, resulting in a 5-year AFFO growth rate of -3.0%.

Shares outstanding have grown by 3% annually over the last decade, which is typical for a REIT, but makes it more difficult to grow AFFO on a per-share basis.

Increased investment activity, such as financing or purchasing more healthcare real estate, as well as increased collections and occupancies, should see NHI continue to grow. We are forecasting 2.0% average annual AFFO growth over the intermediate term.

The corporation will pursue acquisitions and diversify opportunistically, with the main focus on triple-net senior housing and skilled nursing. The company expects to further diversify across asset, tenant, and geography. In 2024, NHI is guiding for its senior housing operating portfolio NOI to improve by 25% to 30%, reflecting an improvement in occupancy and margins.

[1] Estimate
[2] In millions

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National Health has paid special dividends a few times in the past, most recently in 2011 and 2013. With the 2021 dividend cut, we estimate that NHI will potentially resume growing the dividend at 1% to maintain flexibility in the following years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	16.6	15.8	16.2	16.0	14.4	15.7	12.1	14.0	13.5	12.2	***14.8***	***13.5***
Avg. Yld.	4.8%	5.0%	4.9%	4.8%	5.4%	5.1%	6.6%	6.4%	6.1%	6.8%	***5.5%***	***5.8%***

National Health Investors has traded at a P/AFFO ratio of 14.6 on average over the last ten years, and 13.5 over the last five years. While shares trade at 14.8 times forecasted 2024 AFFO, we peg fair value at 13.5 times AFFO, which could lead to a -1.9% annual decline to total returns due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	82%	83%	82%	80%	79%	82%	83%	87%	84%	83%	***82%***	***78%***

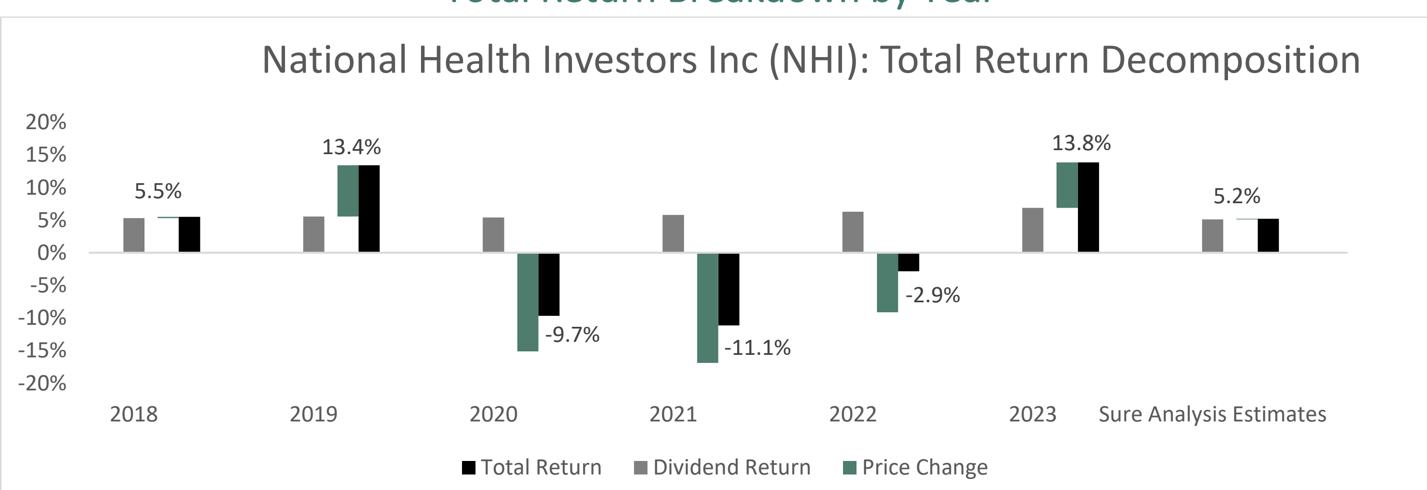
While NHI does not have a strong competitive advantage over other healthcare REITs, the corporation believes that it has an advantage in accessing debt markets due to a strong balance sheet. The company is diversified across tenant, geography and asset type which is also advantageous. During the great recession, share price did not fall as much as the overall market, and in fact, FFO per share grew from 2008 to 2010.

Target leverage is set at 4.0X – 5.0X Net Debt to Adjusted Annualized EBITDA, and the company targets a 60/40 equity/debt funding mix. At the end of Q1 2024, NHI's leverage ratio was 4.4X, within the company's target range. While the payout ratio appeared to be stable in the last few years, NHI still opted to preemptively slash the dividend in 2021, thus we would not rely on it to consistently grow the dividend from here on out.

Final Thoughts & Recommendation

While National Health Investors has a history of performing well, weak occupancy and problems with specific, large partners led the company to sell a meaningful portion of its properties in the last couple years. National Health trades above our estimate of fair value, and has expected annualized total returns of 5.2%, the majority of which come from the 5.5% yield. NHI thus maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	178	229	248	279	295	318	333	299	278	320
Gross Profit				279	295	312	323	287	268	308
Gross Margin	0.0%	0.0%	0.0%	100%	100.0%	98.2%	97.1%	96.1%	96.5%	96.3%
SG&A Exp.	9	11	10	13	13	14	15	19	25	20
D&A Exp.	41	57	63	67	71	77	83	81	71	70
Operating Profit	130	164	178	198	204	220	225	186	143	179
Operating Margin	73.0%	71.6%	71.5%	71.0%	69.3%	69.2%	67.6%	62.3%	51.5%	55.9%
Net Profit	102	149	152	159	154	160	185	112	66	136
Net Margin	57.2%	65.0%	61.0%	57.2%	52.4%	50.4%	55.6%	37.4%	23.9%	42.5%
Free Cash Flow	126	164	177	198	208	241	232	211	185	181

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,983	2,133	2,404	2,546	2,751	3,042	3,120	2,839	2,507	2,488
Cash & Equivalents	3	13	5	3	5	5	43	37	19	22
Accounts Receivable	39	63	82	100	112	89	98	99	82	90
Total Liabilities	933	991	1,194	1,224	1,361	1,544	1,598	1,322	1,218	1,214
Accounts Payable	16	20	21	16	20	26	25	23	26	34
Long-Term Debt	863	914	1,116	1,145	1,282	1,440	1,499	1,243	1,148	1,135
Shareholder's Equity	1,040	1,133	1,210	1,322	1,390	1,498	1,512	1,507	1,270	1,254
LTD/E Ratio	0.83	0.81	0.92	0.87	0.92	0.96	0.99	0.82	0.90	0.91

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	7.2%	6.7%	6.4%	5.8%	5.5%	6.0%	3.8%	2.5%	5.4%
Return on Equity	11.2%	13.7%	12.9%	12.6%	11.4%	11.1%	12.3%	7.4%	4.8%	10.6%
ROIC	6.1%	7.5%	6.9%	6.6%	6.0%	5.7%	6.2%	3.9%	2.6%	5.6%
Shares Out.	33.4	37.6	39.2	41.2	42.1	43.7	44.7	45.7	44.8	43.4
Revenue/Share	5.31	6.08	6.35	6.77	7.00	7.28	7.45	6.53	6.21	7.37
FCF/Share	3.77	4.37	4.51	4.81	4.94	5.51	5.19	4.61	4.14	4.17

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