



LTC Properties (LTC)

Updated August 29th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	8.8%	Market Cap:	\$1.6 B
Fair Value Price:	\$39	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	9/20/2024
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	9/30/2024
Dividend Yield:	6.2%	5 Year Price Target	\$45	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

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 31 operating partners and has a market capitalization of \$1.6 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 July, LTC reported (7/29/24) financial results for the second quarter of fiscal 2024. Funds from operations (FFO) per share dipped -1.5% over the prior year's quarter, from \$0.66 to \$0.65, and missed the analysts' consensus by \$0.01. The decrease in FFO per share resulted from an increased share count. LTC improved its leverage ratio (Net Debt to EBITDA) from 5.5x to 5.3x, but this is still 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 reiterated its lackluster guidance for FFO per share of \$2.63-\$2.65 this year. We still expect FFO per share of \$2.64.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFO	\$2.55	\$2.77	\$3.06	\$3.10	\$3.06	\$3.08	\$2.99	\$2.35	\$2.56	\$2.62	\$2.64	\$3.06
DPS	\$2.04	\$2.07	\$2.19	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28	\$2.28
Shares¹	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.8	42.0	44.0	47.0

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
Avg. P/FFO	15.3	15.6	15.7	15.4	13.6	15.1	12.7	16.0	14.8	12.9	14.0	14.7
Avg. Yld.	5.2%	4.8%	4.6%	4.8%	5.5%	4.9%	6.0%	6.0%	6.0%	6.8%	6.2%	5.1%

¹ 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 14.0, which is lower than the historical average of the stock. We expect inflation and interest rates to subside in the upcoming years and thus we expect LTC to revert to its average valuation level. If the stock trades at its average valuation level in five years, it will enjoy a 1.0% 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%	86.4%	74.5%

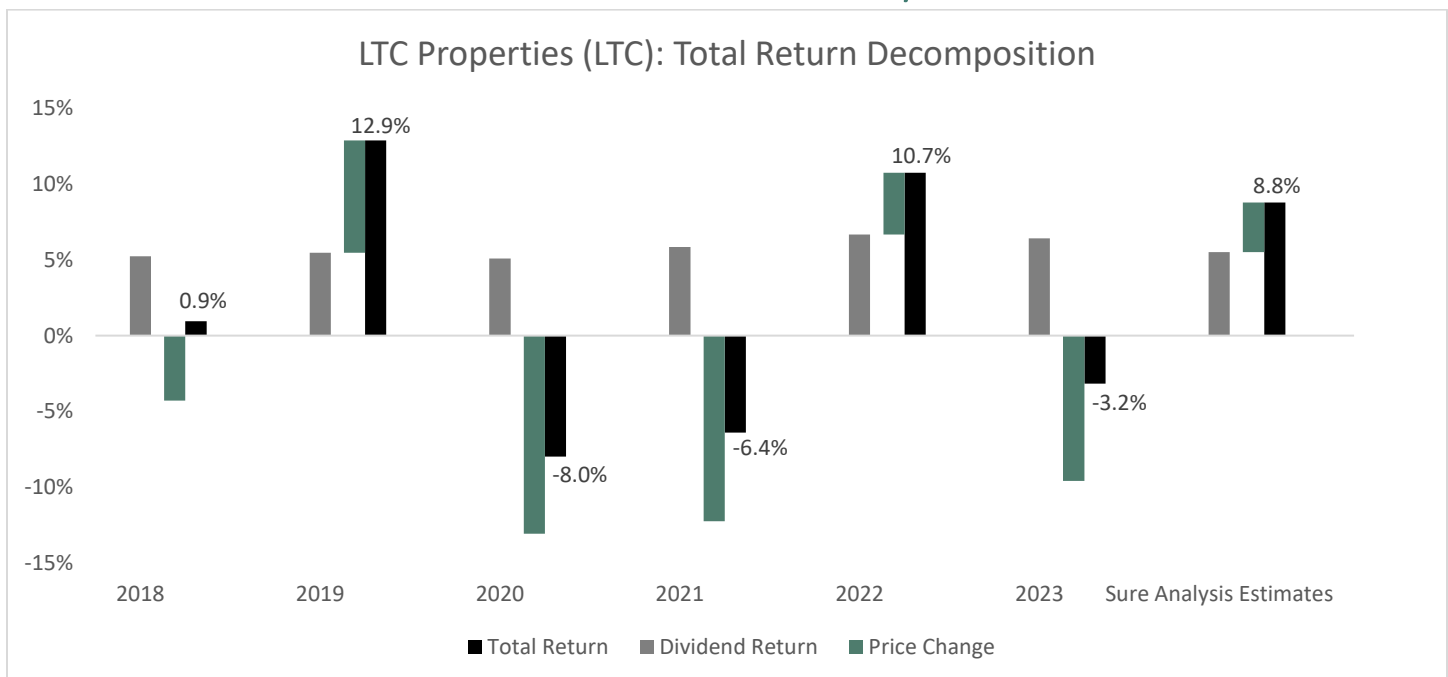
LTC implements a strict screening process before purchasing its assets while it tries to minimize its risk via geographical diversification and security deposits. While it benefits from sustained growth in the health care industry, it does not have a meaningful competitive advantage, as evidenced by 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 6.2% 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 5.3x and an interest coverage ratio of 2.9. 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 per share 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 has rallied 12% since our last research report, in May, but it remains attractive. It could offer an 8.8% average annual return over the next five years thanks to 3.0% growth, its 6.2% dividend and a 1.0% valuation tailwind. We lower our rating from “buy” to “hold”.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	965	1275	1395	1466	1514	1514	1459	1505	1656	1855
Cash & Equivalents	25	13	8	5	3	4	8	5	10	20
Accounts Receivable	33	43	55	64	74	46	24	24	22	20
Total Liabilities	305	616	655	707	681	729	684	760	806	939
Long-Term Debt	281	572	609	668	645	693	649	723	768	891
Shareholder's Equity	622	659	740	755	825	777	767	737	828	881
LTD/E Ratio	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
Return on Assets	7.7%	6.5%	6.4%	6.1%	10.4%	5.3%	6.4%	3.8%	6.3%	5.1%
Return on Equity	12.1%	11.4%	12.2%	11.7%	19.6%	10.1%	12.3%	7.4%	12.8%	10.2%
ROIC	7.9%	6.7%	6.6%	6.3%	10.7%	5.4%	6.6%	3.9%	6.5%	5.2%
Shares Out.	36.6	37.3	38.6	39.6	39.9	39.8	39.1	39.2	40.1	41.4
Revenue/Share	3.25	3.65	4.19	4.24	4.23	4.66	4.06	3.97	4.37	4.77
FCF/Share	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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