



# Universal Health Realty Income Trust (UHT)

Updated November 8<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$42.6	<b>5 Year CAGR Estimate:</b>	8.7%	<b>Market Cap:</b>	\$585 M
<b>Fair Value Price:</b>	\$44.0	<b>5 Year Growth Estimate:</b>	2.5%	<b>Ex-Dividend Date:</b>	12/15/24 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.7%	<b>Dividend Payment Date:</b>	12/29/24 <sup>2</sup>
<b>Dividend Yield:</b>	6.9%	<b>5 Year Price Target</b>	\$50	<b>Years Of Dividend Growth:</b>	40
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## 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 \$585 million. Universal Health's portfolio consists of 69 properties in 20 states.

On October 24, 2024, Universal Health Realty Income Trust (UHT) reported its consolidated financial results for the third quarter ended September 30, 2024. The company achieved net income of \$4.0 million, or \$0.29 per diluted share, compared to \$3.9 million, or \$0.28 per diluted share, in the same quarter last year. This modest increase in net income of \$125,000 was primarily driven by an aggregate net increase of \$451,000 in income generated across various properties. However, this growth was partially offset by a \$326,000 rise in interest expenses, attributed to higher average outstanding borrowings and a slight increase in the average borrowing rate. Funds from Operations (FFO) also saw a slight improvement, rising to \$11.3 million, or \$0.82 per diluted share, from \$11.2 million, or \$0.81 per diluted share, in the third quarter of 2023. This increase in FFO was mainly due to the rise in net income during the period. For the nine-month period ended September 30, 2024, UHT reported net income of \$14.6 million, or \$1.05 per diluted share, up from \$11.8 million, or \$0.85 per diluted share, in the first nine months of 2023. The year-to-date increase of \$2.8 million, or \$0.20 per diluted share, was driven by a \$2.5 million boost in income from properties and a \$1.9 million reduction in expenses related to the Chicago property, including lower demolition costs and property tax reductions. This positive performance was partially offset by a \$1.6 million increase in interest expenses due to higher borrowing costs. Adjusted Funds from Operations (AFFO) also showed growth, increasing to \$2.61 per diluted share for the nine-month period, up from \$2.40 per diluted share in the same period last year. The company maintained a strong liquidity position with significant cash reserves and continued strategic investments to enhance its property portfolio. Overall, Universal Health Realty Income Trust demonstrated steady financial performance in the third quarter of 2024, supported by effective income generation and disciplined expense management.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>FFO</b>	\$2.78	\$2.88	\$3.09	\$3.10	\$3.28	\$3.35	\$3.29	\$3.61	\$3.54	\$3.23	<b>\$3.67</b>	<b>\$4.15</b>
<b>DPS</b>	\$2.52	\$2.56	\$2.60	\$2.64	\$2.68	\$2.72	\$2.76	\$2.76	\$2.84	\$2.88	<b>\$2.92</b>	<b>\$3.00</b>
<b>Shares<sup>3</sup></b>	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	13.8	<b>13.8</b>	<b>14.0</b>

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

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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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 consistent past.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/FFO</b>	17.3	17.4	21.2	24.2	18.7	34.0	18.0	16.0	13.5	10.4	<b>11.6</b>	<b>12.0</b>
<b>Avg. Yld.</b>	5.2%	5.1%	4.0%	3.5%	4.4%	2.4%	4.7%	4.8%	5.9%	7.6%	<b>6.9%</b>	<b>6.0%</b>

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 growing to 34 times FFO recently before falling to today's level of 11.6. 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

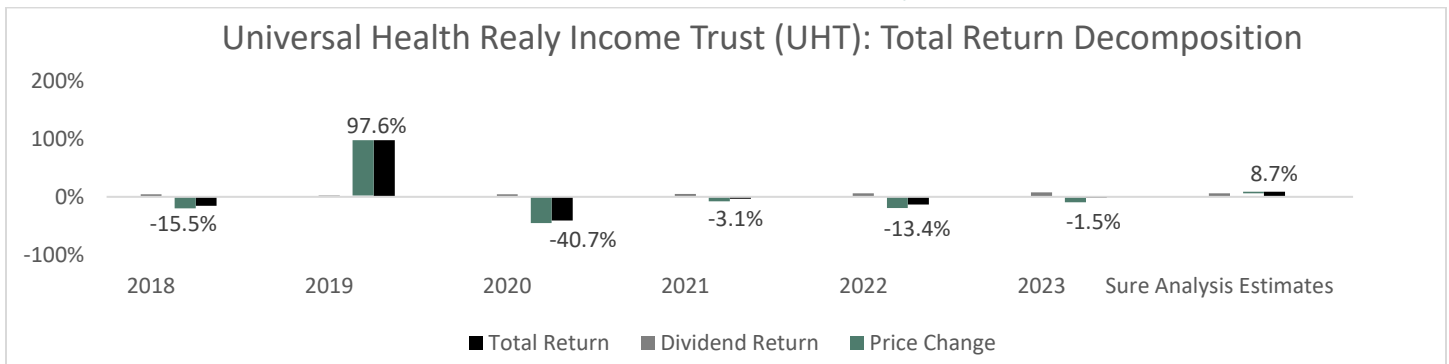
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	91%	89%	84%	85%	82%	81%	84%	76%	80%	89%	<b>80%</b>	<b>72%</b>

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

Shares currently trade below historical multiples and offer an attractive 6.9% dividend yield. The bad news is that projected annualized growth is still not high. Collectively, UHT shares earn a Hold rating as the 8.7% annualized total return potential stemming primarily from the attractive dividends and potential valuation multiple expansion and meager growth 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
<b>Revenue</b>	60	64	67	72	76	77	78	84	91	96
<b>Operating Profit</b>	21	22	23	25	25	26	25	27	26	28
<b>Operating Margin</b>	52	24	17	46	24	19	19	109	21	15
<b>Net Profit</b>	86.2%	37.0%	25.7%	63.1%	31.7%	24.6%	24.9%	130%	23.3%	16.1%
<b>Net Margin</b>	17	21	(20)	37	39	38	42	35	33	35
<b>Free Cash Flow</b>	60	64	67	72	76	77	78	84	91	96

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	429	459	525	490	484	489	494	598	608	596
<b>Cash &amp; Equivalents</b>	4	4	4	3	5	6	6	23	8	8
<b>Accounts Receivable</b>	6	6	8	9	10	11	11	12	14	14
<b>Goodwill &amp; Int. Ass.</b>	23	20	24	21	17	15	12	10	9	9
<b>Total Liabilities</b>	224	263	333	279	285	307	335	363	378	395
<b>Long-Term Debt</b>	213	252	316	256	261	274	295	329	343	359
<b>Shareholder's Equity</b>	205	195	191	211	199	182	159	235	229	201
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	12.9%	5.3%	3.5%	9.0%	5.0%	3.9%	4.0%	20.0%	3.5%	2.6%
<b>Return on Equity</b>	27.8%	11.9%	8.9%	22.7%	11.8%	10.0%	11.4%	55.4%	9.1%	7.2%
<b>ROIC</b>	13.2%	5.5%	3.6%	9.4%	5.2%	4.1%	4.3%	21.4%	3.7%	2.7%
<b>Shares Out.</b>	13.3	13.3	13.6	13.7	13.7	13.8	13.8	13.8	13.8	13.8
<b>Revenue/Share</b>	4.62	4.81	4.98	5.31	5.55	5.61	5.67	6.11	6.57	6.92
<b>FCF/Share</b>	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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