



Rating  
**Buy**

North America  
United States

Financial  
REITs

Company  
**Medical Properties  
Trust Alert**

Reuters: MPW.N    Bloomberg: MPW UN    Exchange: NYS    Ticker: MPW

Date  
2 November 2016

Forecast Change

Price at 1 Nov 2016 (USD)	13.08
Price Target	15.00
52-week range	15.80 - 9.86

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## Weak 3Q print at a top tenant drives MPW sell-off

ADPT's weak 3Q exposes several key issues related to the overall business. Adeptus Health Inc (ADPT: DB not rated), MPW's 6th largest tenant at ~5% of revenue (pro-forma for post 2Q acquisitions) postponed yesterday morning's planned earnings release to aftermarket hours, driving an 11% sell-off in the stock and likely the major contributor to MPW's -6.2% decline (RMZ -2.2%). Once the results were out, the shares dropped another ~50% in after hours trading as ADPT reported weak 3Q results with several significant issues affecting the company, and announced an emergency infusion of capital by insiders. While some of the significant decline in EBITDA was tied to the transitional nature of ADPT's recent strategic shift, we were surprised by the weakened balance sheet as well as the liquidity issues caused by significant mismanagement of bill collections and the capital intensive nature of recent hospital openings. ADPT also cut their adjusted EBITDA guidance by ~34% at the midpoint on lower-than-expected patient volumes in non-hospital outpatient markets, higher-than-expected cash outlays for its three recent hospital openings, and a substantial increase in days sales outstanding.

Worst case scenario suggests ~11% downside to 2017 FAD, dividend covered. Assuming a worst case scenario in which Adeptus ceases to exist, we estimate a roughly 11% hit (~14c) to our current 2017 FAD estimate. Our downside estimate assumes a total loss of all in-place ADPT revenue (\$8.2MM in 2Q) and the elimination of all developments tied to ADPT. Importantly, the FAD payout ratio would still be a manageable 80%. We think a total loss of ADPT income is extremely bearish given healthy rent coverage of 2.85x and MPW's geographic exposure within the ADPT portfolio which is skewed toward Dallas, Houston, and Colorado, whereas the weakest volumes for ADPT appear to have been in the San Antonio and Austin markets where MPW has 7 assets in development.

Risk/reward remains attractive despite significant headline risk. We have been assuming about a 3.5x FAD multiple discount to MPW's small cap healthcare REIT peers to account for heightened risks associated with the hospital industry, equating to a 12.3x multiple. Should a worst case scenario for ADPT unfold we could easily see MPW trade even lower in the near term. We think another 1.5x haircut to our 12.3x baseline multiple could be reasonable in such a scenario equating to a 1 standard deviation drop to our baseline. 10.8x on our worst case 2017 FAD estimate of \$1.15 would equate to \$12.42/sh or another 5% decline in the stock. Contrast this with our new target price of \$15/sh and we continue to believe the risk/reward is favorable for MPW despite obvious and serious headline risks.

Lowering TP to reflect heightened ADPT risk, maintain Buy. To reflect the heightened risks tied to Adeptus, we are increasing our FAD discount to peers by 0.5x to 4.0x, which combined with the recent REIT sell-off equates to 11.8x our 2017 FAD estimate & moves our TP for MPW to \$15 from \$17. Key risks include the ongoing DoJ investigation of top tenant Prime Healthcare, continued pressure on Adeptus, above-avg government reimbursement risk, and rate sensitivity.

Key changes			
Target Price	17.00 to 15.00	↓	-11.8%
Source: Deutsche Bank			

Stock & option liquidity data			
Market Cap (USDm)	4,037.5		
Shares outstanding (m)	308.7		
Free float (%)	100		
Volume (1 Nov 2016)	2,066,734		
Option volume (und. shrs., 1M avg.)	-		
Source: Deutsche Bank			

Key data			
FYE 12/31	2015A	2016E	2017E
1Q FFO	0.28	0.35A	-
2Q FFO	0.30	0.32A	-
3Q FFO	0.32	0.30	-
4Q FFO	0.35	0.32	-
FY FFO (USD)	1.25	1.29	1.39
P/FFO (x)	10.5	10.1	9.4
Source: Deutsche Bank			

Deutsche Bank Securities Inc.

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