



Rating  
**Buy**

North America  
United States

Financial  
REITs

Company  
**Medical Properties  
Trust**

Reuters Bloomberg Exchange Ticker  
MPW.N MPW UN NYS MPW

Date  
22 July 2016

Initiation of Coverage

Price at 21 Jul 2016 (USD)	15.69
Price Target	17.00
52-week range	15.69 - 9.86

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## Long-term hospital opportunity and attractive relative value: Initiate at Buy

Hospital pure play to benefit from rising institutional ownership

We believe MPW represents an attractive long-term consolidation play in the hospital space, given its industry expertise, discounted relative value and healthy 6% dividend. We think the institutionalization of the hospital real estate market is poised to accelerate, driven by positive industry trends, increased comfort with the sale/leaseback model, not-for-profit to for-profit conversions, and managed care consolidation that could spur additional hospital consolidation activity. As the only pure play in the hospital space, we believe MPW stands to benefit the most from these positive trends. With a 15% total expected return, including a 6% dividend yield, we are initiating with a Buy.

Long-term tailwinds and attractive relative value

Our positive long-term bias is based on 1) the attractive long-term roll-up opportunity, 2) potential acceleration of acquisition activity, 3) highly stable and visible cash flows, 4) solid hospital industry trends, and 5) the potential for a re-rating of the shares as investors become more comfortable with the hospital sector overall. We fully recognize that the path to realizing MPW's embedded value will be difficult to measure quarter-to-quarter as acquisitions are difficult to project and lumpy by nature, but we see the potential for significant value creation over time.

Normalization of relative value drives our TP; dividend protects the downside  
MPW currently trades at wider-than-historical FFO and AFFO multiple discounts versus its smaller-cap Healthcare REIT peers. However, we think there are several reasons why MPW should, at a minimum, trade in line with historical relative valuations including: 1) prospective earnings upside from accretive acquisitions; 2) VTR's entry into the hospital space, which should drive greater price transparency and awareness; and 3) substantial improvements in the scale/diversification of MPW's business versus history. We see downside protection stemming from MPW's well-covered 6% dividend yield.

Valuation and risks

Our TP of \$17 per share equates to a 15% expected return including the 6% dividend yield. Our TP is based on a 14.3x our 2017 FAD estimate of \$1.19. Our multiple assumption is rich by historical standards, but not relative to the record low rate environment, and is a 3.5x discount to peers, which is roughly in line with the five-year average. Key risks include: 1) interest rate sensitivity, 2) above-average government reimbursement risk, 3) above-average tenant concentration risk, 4) FX and geographic risk given MPW's European exposure, 5) less-robust disclosures vs peers, and 6) healthcare regulatory risks.

Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
1Q FFO	0.28	0.35A	-
2Q FFO	0.29	0.32	-
3Q FFO	0.32	0.30	-
4Q FFO	0.35	0.32	-
FY FFO (USD)	1.24	1.30	1.32
P/FFO (x)	10.5	12.1	11.9
Dividend yield (%)	6.7	5.8	5.9

Source: Deutsche Bank estimates, company data

Price/price relative



Performance (%)	1m	3m	12m
Absolute	4.5	23.2	13.0
S&P 500 INDEX	4.0	3.9	2.5

Source: Deutsche Bank

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