Healthpeak Properties (PEAK)

$27.50 (As of 08/17/20)

Price Target (6-12 Months): **$29.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/13/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: D | Momentum: C	**3-Hold** VGM:D

Summary

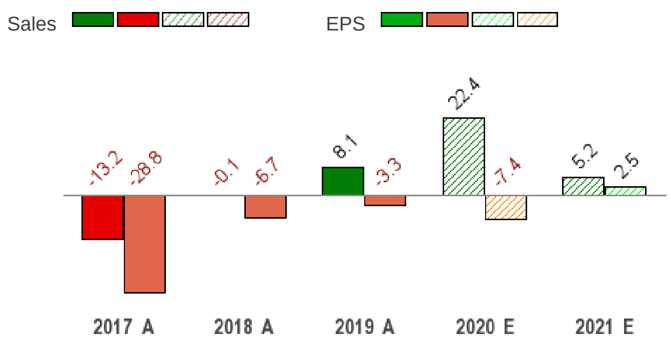
Healthpeak has a diversified, high-quality and well-balanced portfolio in the healthcare sector. Moreover, its life science and medical office segments are witnessing strong leasing, driven by a higher demand for drug innovation, additional space for biotech research and outpatient procedures resuming across the company's markets. Further, with an impressive senior housing portfolio in affluent markets, the company is well-poised to gain from rising healthcare spending and aging population. However, the operating environment for senior housing remains challenging amid high move-outs and muted move-ins. This is likely to hurt Healthpeak's senior housing segments' occupancies. Moreover, the dilutive impact on earnings from assets sale is unavoidable. Further, shares of the company have underperformed its industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$37.93 - $18.63**
20 Day Average Volume (sh)	**3,271,177**
Market Cap	**$14.8 B**
YTD Price Change	**-20.2%**
Beta	**0.65**
Dividend / Div Yld	**$1.48 / 5.4%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Bottom 15% (213 out of 252)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**-14.4%**
EPS F1 Est- 4 week change	**-1.5%**
Expected Report Date	**11/04/2020**
Earnings ESP	**-0.4%**
P/E TTM	**15.9**
P/E F1	**16.9**
PEG F1	**5.8**
P/S TTM	**6.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	653 E	662 E	668 E	680 E	2,572 E
2020	585 A	588 A	640 E	645 E	2,444 E
2019	436 A	492 A	538 A	532 A	1,997 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.41 E	$0.42 E	$0.42 E	$0.43 E	$1.67 E
2020	$0.45 A	$0.40 A	$0.40 E	$0.40 E	$1.63 E
2019	$0.44 A	$0.44 A	$0.44 A	$0.44 A	$1.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

Overview

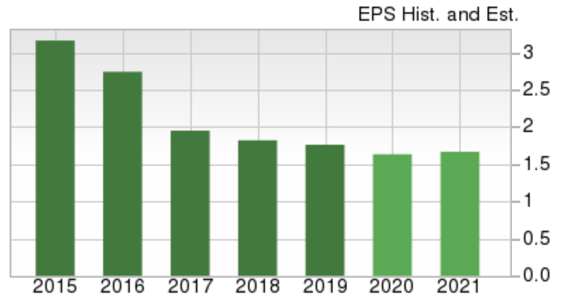
Headquartered in Irvine, CA, Healthpeak Properties, Inc. is a real estate investment trust (REIT) in the United States that acquires, develops, manages, sells and leases a diverse portfolio of healthcare real estate related properties. It is an S&P 500 Index member. The company divides its operations into the following five reportable segments: senior housing triple-net, senior housing operating portfolio (SHOP), continuing care retirement community (CCRC), life science, and medical office. It also has a non-reportable segment, primarily consisting of hospital properties and debt investments.

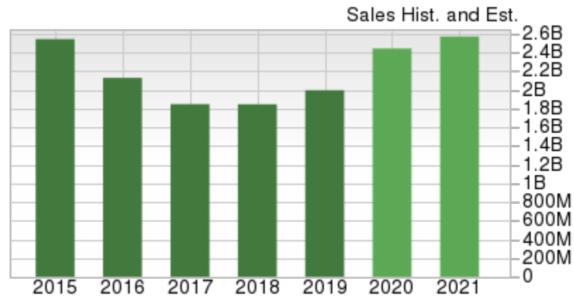
Healthpeak's senior housing facilities, including CCRCs, are managed under triple-net leases and RIDEA structures.

As of Jun 30, 2020, Healthpeak's portfolio of investments, including properties in unconsolidated joint ventures, comprised interests in 633 properties.

On Oct 30, 2019, the company changed its name from HCP, Inc. to Healthpeak Properties, Inc. Shares of the company started trading under the new name and ticker symbol "PEAK" on the NYSE from Nov 5, 2019.

In January 2020, the company closed the previously announced transaction with Brookdale Senior Living, acquiring Brookdale's 51% interest in 13 CCRCs for $641 million (including the payment of a $100-million management termination fee) and the sale of a triple-net portfolio, consisting 18 properties, for $405 million.





Moreover, in December 2019, the company sold its remaining 49% interest in its U.K. joint venture, shedding its footprint on the country, for proceeds of $91 million and recognized $7 million as a loss on the sale of the real estate.

Note: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*

Reasons To Buy:

Healthpeak is likely to gain from a diversified portfolio, rising healthcare spending and aging population. Accretive investments, tie-ups and opportunistic investments will drive decent cash flows.

- Healthpeak has one of the most diversified, high-quality and well-balanced portfolios in the healthcare sector with exposure to all types of facilities. The diverse product mix of the company allows it to explore the opportunities available in various areas, based on individual market dynamics. The company has reduced tenant concentration, with top three tenants representing 24% of the total portfolio income in 2019, down from 31% in 2017. Moreover, the company's total portfolio is now significantly private pay and this is likely to increase its overall profitability over the long run. Specifically, this will help the company leverage on the baby-boomer demographics but avoid the complicacies surrounding government reimbursement.

- Going forward, national healthcare expenditure is expected to rise. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared to the average population. Hence, with an expectation of a high senior citizens' population in the years ahead, we believe Healthpeak has a strong upside potential, being well-poised to capitalize on this expenditure trend of senior citizens on healthcare services. Moreover, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid volatility in the market. This is because even amid tough economic conditions, consumers need to spend on healthcare services while curtailing discretionary purchases.

- Healthpeak remains focused on transforming its SHOP asset quality through addition of strategic properties and recycling of capital on the back of dispositions. Through these prudent capital-allocation measures, the company has improved its operator diversification and expanded geographic footprint of its SHOP portfolio in high growth and affluent markets, leading to superior gains in RevPOR. Additionally, post pandemic crisis, pent-up demand for senior housing properties will likely drive move-ins above average historical levels. This along with stronger demographics positions the company's SHOP platform for growth in the long run.

- Increasing life expectancy of the U.S. population, and biopharma drug development growth opportunities have promoted the life-science and medical- real estate market fundamentals. Moreover, in light of global efforts to develop vaccines and treatments for the coronavirus, there is higher demand for drug innovation. This is driving sector fundamentals and leasing activity. Hence, Healthpeak's focus on the segments is a strategic fit and it expects the majority of its future growth to be driven by such assets. Notably, the company follows a cluster strategy in three premier life-science epicenters — San Diego, San Francisco and Boston — to assemble assets through acquisitions, developments and redevelopments. On the back of these portfolio moves, the company is gaining scale and is well-poised to meet the growing demand for life-science tenants.

- Healthpeak has made concerted efforts to reposition its portfolio. As part of such efforts, the company has recycled capital through non-core dispositions to its solid investment and development pipeline. In fact, strategic expansion of its life-science and medical office footprint as well as selective buyouts of high-quality senior housing assets in high barrier-to-entry markets has renewed growth opportunities for the company. As of Jun 30, the company had eight life science and seven medical office development projects, with investment of $458.6 million. The seven medical office projects are part of the company's development program with HCA Healthcare, and have total estimated costs of $184 million at the second-quarter end. Moreover, in April 2020, it closed the acquisition of The Post, a life science campus in Waltham, MA, for $320 million. The company's outlook for 2020 development and redevelopment spend is $550-$600 million, increasing $100 million from the prior outlook due to earlier resumption of construction activities.

- Healthpeak has been taking steps to bolster its liquidity. In July, the company refinanced its intermediate-term senior unsecured notes, thereby, eliminated any scheduled debt maturities till November 2023. After the transactions, it had $2.85 billion of liquidity as of Jul 31, 2020. This consisted of full availability on its $2.5-billion revolving credit facility, and nearly $350 million of cash and cash equivalents. Additionally, as of Aug 3, the company's balance sheet enjoys long-term credit ratings of Baa1 from Moody's as well as BBB+ from Fitch and S&P Global. With investment-grade credit rating and provision to issue additional shares under its at-the-market program, the company can easily access the debt and equity markets to fund capital commitments at favorable costs. Therefore, though the coronavirus pandemic has been wreaking havoc all over, Healthpeak, with its sound liquidity position and limited near-term capital needs, is anticipated to sail efficiently through the current crisis and unexpected negative externalities in the future.

Reasons To Sell:

> The adverse impacts on the company's senior housing portfolio amid the coronavirus pandemic are worrisome. Moreover, rising supply and earnings dilution from asset dispositions are concerns.

- Healthpeak's three senior housing businesses (29% of total portfolio adjusted net operating income or NOI as of the second-quarter end) have all been adversely impacted by the pandemic. Move-ins remain below historical averages in light of the coronavirus outbreak-related protocols, shelter in place, reduced in-person tours and incidences of coronavirus outbreaks at the company's facilities. This along with significant move-outs has been impacting occupancy rates at its SHOP and CCRC portfolios. In fact, for the duration of the pandemic, Healthpeak expects 0.5-2.5% and 0.5-1% of occupancy attrition per month in SHOP and CCRC assets, respectively. In addition, incremental expenses are expected to increase 0-5% during the pandemic.

- During the first quarter, physician practices as well as non-essential surgeries continued to be delayed due to the pandemic. This negatively impacted cash flows and medical office business operations. Further, the company's medical office leasing activity witnessed slowdowns in April. This is expected to adversely impact lease commencements and occupancy in third-quarter 2020. Additionally, due to governmental restrictions on business activities in greater San Francisco and Boston, Healthpeak temporarily suspended development and redevelopment activities at many of its life-science properties. Although construction resumed in all markets, the pause resulted in delayed deliveries and project completions by 1-2 months. This delay is also expected to push rent commencement.

- Apart from the coronavirus-led occupancy woes, the seniors housing market has been reeling with high-supply conditions in certain markets and rising labor costs. This is concerning for Healthpeak because elevated supply usually curtails landlords' pricing power and limits growth in occupancy level. Moreover, the length of stay at SHOP assets is usually short and this is exacerbating performance of the segment amid the tough pandemic-led operating environment.

- In a bid to optimize portfolio and eliminate small operator relationships, the company sheds non-core healthcare properties. Specifically in 2019, it announced $1.4 billion of non-core assets sales including the sale of the remaining 49% interest in Healthpeak's U.K. holdings. Further, during the six months ended Jun 30, the company sold 36 properties for $671.6 million. Healthpeak also anticipates completing nearly 275 million of additional dispositions in the ongoing year. Although such efforts are a strategic fit for the long term, the dilutive impact on earnings and reduced cash flows in the near term from the sale of assets is unavoidable.

- Shares of the company have lost 20.6% compared with the industry's decline of 7.2% over the past year. Moreover, the trend in estimate revisions of third-quarter 2020 FFO per share does not indicate a favorable outlook for the company as estimates have been revised marginally downward over the past month. Hence, given the above-mentioned concerns and downward estimate revision, the stock has limited upside potential for the upcoming period.

Last Earnings Report

Healthpeak Q2 FFO Meets Estimates, Revenues Miss

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-14.43%
EPS Surprise	0.00%
Quarterly EPS	0.40
Annual EPS (TTM)	1.73

Healthpeak reported second-quarter 2020 FFO as adjusted of 40 cents per share, meeting the Zacks Consensus Estimate. However, the reported figure compared unfavorably with FFO as adjusted of 44 cents per share in the prior-year quarter.

The healthcare REIT generated revenues of $588.4 million, missing the Zacks Consensus Estimate of $687.6 million. Nonetheless, the figure was higher than the year-ago number of 491.6 million.

Results were supported by the decent performance of its life science and medical office segments. However, the company experienced around $20 million (3.5 cents per share) of elevated expenses at its SHOP and CCRC segments.

Behind the Headlines

Healthpeak witnessed a 2.2% year-over-year decline in the three-month cash same-store portfolio (SPP) NOI. It registered 7.3% growth in life-science cash NOI, a 1.3% rise in the medical office segment, 2.9% advancement in other non-reportable segments and a 21.2% decline in senior-housing segment cash NOI.

Notable Portfolio Activities in Q2

In June 2020, the company closed the previously-announced sale of three medical office buildings in San Diego, CA, generating proceeds of around $106 million.

In June 2020, it signed a 17-year lease for 74,000 square feet at the Boardwalk development project in San Diego, CA. Notably, the 190,000-square-foot Class A development project is presently 39% pre-leased.

In April 2020, it completed the buyout of the previously-announced life science campus —The Post —for $320 million.

Liquidity

Healthpeak had cash and cash equivalents of $730.9 million as of Jun 30, 2020, up from $144.2 million recorded at the end of 2019.

In June, the company raised $600 million through a senior unsecured notes offering and used proceeds to redeem all of its outstanding $300 million of 3.150% senior unsecured notes and to repurchase $250 million of its 4.250% senior unsecured notes.

Through these refinancing, the company eliminated any scheduled debt maturities till November 2023. After these transactions, it had $2.85 billion of liquidity as of Jul 31, 2020. This consisted of full availability on its $2.5-billion revolving credit facility, and nearly $350 million of cash and cash equivalents.

July 2020 Preliminary Updates

At its life science segment, occupancy for July was 96.3%, down 60 basis points (bps) since Jun 30, due to known vacancies. July rent payments improved from June collections, with the company receiving 99% of rents for the month. In June, it finalized short-term deferrals of around $1 million.

At its medical office segment, occupancy for July was 91.1%, stable as compared with Jun 30. The company collected 98% of contractual rents for July. It has deferred $6 million of rents.

In its senior housing operating portfolio, the company continued to witness a decline in move-ins, move-outs, leads and tours. This has likely resulted in spot occupancy declining 110 bps from June to July's 77.8%.

At its senior housing CCRC portfolio, spot occupancy as of Jul 31 was 79.3%, decreasing 20 bps from June. Further, at its triple-net lease portfolio, the company received 97% of rents and has deferred 3%.

Outlook

Same-store NOI at the company's life science segment is projected to be 4-5%, up 100 bps from 3-4% mentioned earlier. Strong leasing, robust mark-to-market, stable rent collections and higher availability of biotech capital funding have driven the increase. Nonetheless, Healthpeak anticipated near-term lease roll and known vacancies to affect same-store occupancy in the second half of the year.

Same-store NOI for the medical office segment and the other segment is expected to be 1-2% and 1.75-2.50%, respectively, unchanged from the prior outlook. Guidance remains withdrawn for the senior housing segment and the total portfolio.

Recent News

Healthpeak Raises Capital With $600M Senior Unsecured Notes Offering - Jun 23, 2020

Healthpeak closed a public offering of 2.875% senior unsecured notes priced at 99.125% of the principal amount. The net proceeds from the offering after considering the underwriting discount but before deducting projected offering expenses payable by the company are $590.85 million.

The senior obligation, with an aggregate principal amount of $600 million, will be due in 2031.

The company plans to use the net proceeds from the offering to fully redeem (including the payment of premiums and accrued interest) its 3.15% senior notes due August 2022 with an aggregate principal amount of $300 million.

Proceeds will also be used to fund the tender offer to cash purchase a portion of its 4.250% senior notes due November 2023.

Remaining net proceeds will be used for general corporate purposes, including the repayment of the outstanding balance under the company's revolving credit facility and outstanding commercial paper.

Dividend Update

On Aug 4, Healthpeak announced a quarterly cash dividend of 37 cents per share on its common stock. The dividend will paid out on Aug 25 to shareholders of record as of Aug 14, 2020.

Valuation

Healthpeak's shares have been down 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 7.2% and 7.2% in the past year, respectively.

The S&P 500 Index is up 15.8% in the past year.

The stock is currently trading at 16.79X forward 12-month FFO, which compares to 19.41X for the Zacks sub-industry, 16.65X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.01X and as low as 8.05X, with a 5-year median of 14.79X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $29 price target reflects 17.71X FFO.

The table below shows summary valuation data for PEAK.

Valuation Multiples - PEAK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.79	19.41	16.65	22.87
	5-Year High	21.01	19.41	16.65	22.87
	5-Year Low	8.05	14.32	11.60	15.25
	5-Year Median	14.79	16.11	14.26	17.58
P/S F12M	Current	5.86	8.40	6.22	3.71
	5-Year High	8.97	8.40	6.67	3.71
	5-Year Low	4.59	5.97	4.97	2.53
	5-Year Median	6.86	7.00	6.06	3.05
P/B TTM	Current	1.93	2.47	2.48	4.54
	5-Year High	2.88	3.03	2.91	4.56
	5-Year Low	1.25	1.81	1.72	2.83
	5-Year Median	2.14	2.51	2.53	3.74

As of 08/17/2020

Industry Analysis **Zacks Industry Rank:** Bottom 15% (213 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Healthcare Realty Trust Incorporated **(HR)**	Neutral	3
Healthcare Trust of America, Inc. **(HTA)**	Neutral	3
LTC Properties, Inc. **(LTC)**	Neutral	3
Medical Properties Trust, Inc. **(MPW)**	Neutral	4
Omega Healthcare Investors, Inc. **(OHI)**	Neutral	3
Sabra Healthcare REIT, Inc. **(SBRA)**	Neutral	3
Ventas, Inc. **(VTR)**	Neutral	3
Welltower Inc. **(WELL)**	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other

	PEAK	X Industry	S&P 500	MPW	VTR	WELL
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	C	C	D
Market Cap	14.80 B	2.03 B	23.75 B	10.22 B	15.33 B	23.36 B
# of Analysts	8	4	14	6	6	9
Dividend Yield	5.38%	3.90%	1.62%	5.59%	4.38%	4.36%
Value Score	D	-	-	D	C	D
Cash/Price	0.06	0.06	0.07	0.12	0.07	0.08
EV/EBITDA	21.42	14.20	13.49	31.16	14.33	16.80
PEG Ratio	5.75	4.07	3.03	2.39	4.30	5.39
Price/Book (P/B)	1.93	1.33	3.18	1.45	1.47	1.38
Price/Cash Flow (P/CF)	18.53	10.97	12.85	18.52	10.25	9.97
P/E (F1)	16.74	15.50	22.17	12.55	12.90	16.18
Price/Sales (P/S)	6.60	4.90	2.49	9.58	3.90	4.69
Earnings Yield	5.93%	5.87%	4.32%	7.97%	7.74%	6.18%
Debt/Equity	0.88	0.92	0.77	1.10	1.20	0.85
Cash Flow ($/share)	1.48	2.05	6.94	1.04	4.01	5.62
Growth Score	D	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	-13.98%	0.73%	10.44%	1.72%	-3.35%	-2.32%
Proj. EPS Growth (F1/F0)	-7.24%	-2.05%	-5.97%	18.46%	-17.32%	-16.85%
Curr. Cash Flow Growth	-55.20%	3.36%	5.22%	-53.66%	13.38%	28.20%
Hist. Cash Flow Growth (3-5 yrs)	-12.01%	12.74%	8.52%	36.83%	3.38%	9.39%
Current Ratio	1.37	1.62	1.33	3.69	1.53	3.32
Debt/Capital	46.74%	48.09%	44.59%	52.45%	54.65%	46.57%
Net Margin	14.60%	10.49%	10.13%	38.41%	10.49%	26.20%
Return on Equity	4.57%	3.32%	14.51%	6.29%	3.88%	8.64%
Sales/Assets	0.15	0.13	0.51	0.07	0.16	0.15
Proj. Sales Growth (F1/F0)	22.34%	0.00%	-1.67%	46.06%	-0.45%	-4.90%
Momentum Score	C	-	-	B	B	C
Daily Price Chg	1.81%	0.31%	-0.02%	0.78%	1.18%	-1.36%
1 Week Price Chg	-5.59%	-0.94%	1.09%	-3.47%	-2.22%	-0.75%
4 Week Price Chg	7.05%	6.48%	4.83%	5.23%	19.87%	13.55%
12 Week Price Chg	12.02%	11.19%	13.09%	10.65%	21.86%	17.06%
52 Week Price Chg	-20.59%	-20.05%	2.77%	5.63%	-43.97%	-37.40%
20 Day Average Volume	3,271,177	623,291	1,932,479	2,719,140	2,784,171	2,538,583
(F1) EPS Est 1 week change	0.69%	0.00%	0.00%	0.00%	0.00%	1.57%
(F1) EPS Est 4 week change	-1.51%	0.00%	1.80%	-0.11%	2.16%	-0.29%
(F1) EPS Est 12 week change	-1.43%	-0.27%	2.88%	-3.60%	6.45%	-1.08%
(Q1) EPS Est Mthly Chg	-3.88%	0.00%	0.80%	-0.38%	0.68%	-3.86%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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