

Ventas Inc. (VTR)

\$59.75 (As of 02/14/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/28/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Ventas has a diversified portfolio of seniors housing, medical office and other healthcare assets. This portfolio is well poised to gain from the demographic-driven demand boom from the aging population. Further, the company is making efforts to enhance its office portfolio, banking on solid demand for university-based research and innovation developments. Acquisition of seniors housing assets also enables the company to enjoy steady cash flows. A strong balance sheet provides it the dry power to pursue its growth endeavors. However, shares of Ventas have underperformed its industry, over the past year. Further, elevated supply of seniors housing assets is intensifying competition, and will likely impede rent and occupancy growth in the upcoming period. Moreover, asset dispositions are expected to result in near-term earnings dilution.

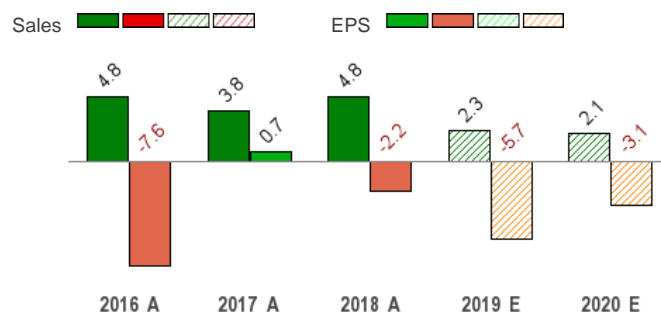
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.40 - \$54.59
20 Day Average Volume (sh)	1,846,337
Market Cap	\$22.3 B
YTD Price Change	3.5%
Beta	0.19
Dividend / Div Yld	\$3.17 / 5.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 37% (160 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	3.8%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	02/20/2020
Earnings ESP	0.8%
P/E TTM	15.4
P/E F1	16.1
PEG F1	6.8
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	972 E	972 E	974 E	976 E	3,916 E
2019	943 A	951 A	983 A	980 E	3,834 E
2018	944 A	942 A	937 A	923 A	3,746 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.93 E	\$0.93 E	\$0.93 E	\$0.94 E	\$3.72 E
2019	\$0.99 A	\$0.97 A	\$0.96 A	\$0.92 E	\$3.84 E
2018	\$0.96 A	\$1.08 A	\$0.99 A	\$0.96 A	\$4.07 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 02/14/2020. The reports text is as of 02/17/2020.

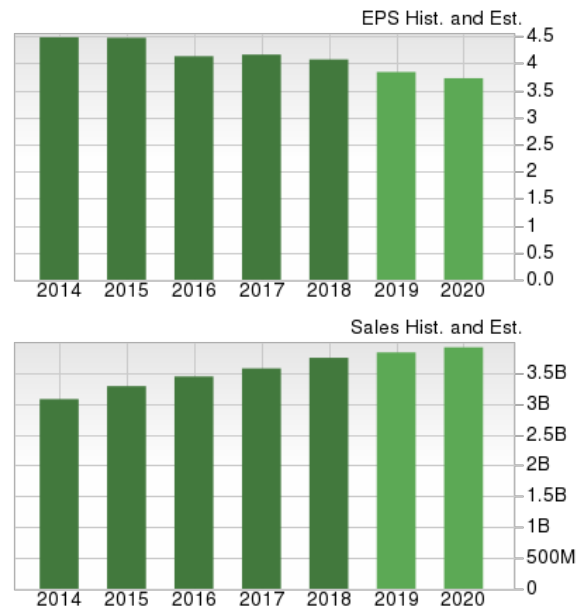
Overview

Chicago, IL-based Ventas, Inc. is a healthcare real estate investment trust (REIT) that is mainly engaged in the acquisition and ownership of seniors housing, research and innovation as well as healthcare properties, and leasing them to unaffiliated tenants or operating them through independent third-party managers.

The company has a diverse portfolio of nearly 1,200 properties located in the United States, Canada and the U.K. These properties include seniors housing communities, medical office buildings (MOBs), research and innovation centers, inpatient rehabilitation, long-term acute-care facilities and health systems. Ventas offers MOB management, leasing, marketing, facility development and advisory services to well-rated hospitals and health systems throughout the United States through its ownership interest in PMB Real Estate Services LLC and its subsidiary, Lillibridge Healthcare Services, Inc. It also makes secured and non-mortgage loans and other investments relating to seniors housing and healthcare properties or operators.

As of Sep 30, 2019, Ventas operated through three reportable segments — triple-net leased properties, senior-living operations and office operations.

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:

- ▲ The national healthcare expenditure is expected to rise in the upcoming years. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared with the average population. Hence, with an expectation of a rising senior citizens' population in the years ahead, Ventas 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.
- ▲ Ventas is focusing on assets in high-barrier-to entry coastal markets. The company's seniors housing operating portfolio (SHOP) assets are located in elite markets that enjoy stronger demographics trends and increasing penetration rates, positioning it to generate steady cash flows. In the third quarter, Ventas completed its investment in a portfolio of 29 Class-A apartment-like senior housing assets and five in-progress developments in Quebec through 87% interest in an equity partnership with Le Groupe Maurice (LGM). In addition, the market for seniors' housing and healthcare real estate is large and fragmented, offering a huge scope of consolidation. This provides a solid opportunity for this healthcare REIT.
- ▲ Amid growing in-patient admission trends, the company is focusing to capture the upside with its office segment, which includes MOB's, academic medical and research and innovation (R&I) businesses. Particularly, in the university-based R&I real estate segment, Ventas has accelerated its investments in new developments. The company has a robust development pipeline of \$1.5 billion, of which, it has announced \$0.9 billion of projects through as of third-quarter end. Such investments offer Ventas the opportunity to capitalize on the growing healthcare-driven research and development, supported by top-tier research universities. Increasing longevity of the aging U.S. population, along with biopharma drug development growth opportunities, have also promoted the institutional life science and medical-market fundamentals. Further, long-lease terms and top-rated, institutional quality tenants assure steady growth in cash flows for Ventas.
- ▲ Ventas usually leases its healthcare facilities under "triple net" leases, where the tenant pays for taxes, insurance and maintenance of the properties, in addition to rent. These long-term net lease properties produce a steady cash flow with escalations, the majority of which are tied to CPI (consumer price index). This insulates the company from short-term market swings that may adversely affect the operations of a particular facility.
- ▲ Ventas has a strong balance sheet with ample liquidity to eye high-yielding acquisitions and high ROI (return on investments) capital projects. As of Sep 30, 2019, the company had \$148.1 million of cash and cash equivalents and liquidity of \$1.8 billion. Further, it has prudently accessed both debt and equity markets in 2019 to raise capital. Year to date through the third-quarter end, the company has issued an aggregate of \$1.8 billion of senior notes and sold a total of 15.4 million shares under public offering and at-the-market (ATM) equity offering program. As of Sep 30, 2019, the company had \$822.1 million of its common stock available for sale under its \$1-billion ATM program. Such strong capital market executions and a well-staggered debt maturity schedule improve the company's financial flexibility, providing it the dry power to pursue its growth endeavors.
- ▲ Moreover, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Ventas remains committed to that. The company marginally increased its dividends for fourth-quarter 2018 and maintained the same dividend rate subsequently. In fact, the company has consistently increased its dividend every year for more than a decade. Considering from 2001, the company's compound annual dividend increase is 8%. Given its financial position, this dividend rate is expected to be sustainable.

Ventas' high-quality diversified portfolio is well positioned to gain from strong demographic demand. Accretive external investments and upside in the office portfolio are growth drivers.

Reasons To Sell:

- ▼ Increase in supply of seniors' housing assets in certain secondary markets remains a concern for Ventas. This is because elevated supply usually curtails the landlords' pricing power and limits growth in occupancy level. Management expects supply level to remain high in fourth-quarter 2019. Particularly, high supply is expected to intensify competition for new residents, thereby escalating chances for unfavorable releasing spreads.
- ▼ The company also faces tenant concentration risk in its triple-net leased property segment. Specifically, properties leased to Brookdale Senior Living, Ardent and Kindred account for a significant part of Ventas' segmental revenues and net operating income (NOI). Hence, in case of no lease renewal or any adverse development in these three tenants, Ventas' financial condition and results will likely be impacted.
- ▼ Although interest rates are at low levels currently, any hike remains a woe for Ventas, particularly considering its substantial exposure to long-term leased assets. Properties under long-term triple-net leases generally have fixed rental rates, which are subject to annual escalations. However, many of the company's debt obligations bear floating rates with interest and related payments rates varying with the movement of LIBOR, bankers' acceptance or other indexes. Therefore, any rise in the interest rate is likely to raise the cost of debt, which, in turn, might affect the company's profitability. In addition, rising rates increase the cost of financing acquisitions, investment and development-activity and also lowers the amount that third parties are ready to pay for the company's assets at disposal. Moreover, the dividend payout might become less attractive than the yields on fixed income and money market accounts.
- ▼ The company is making efforts to unlock value of its assets through opportunistic disposals of non-core senior housing operating assets and using proceeds to retire debt and invest in growth opportunities. In fact, in the first three quarters of 2019, the company completed dispositions worth \$77.3 million. Although such efforts enable the company to optimize its portfolio and better manage financial obligations, near-term dilution in earnings cannot be bypassed.
- ▼ Ventas operates in a cut-throat market and competes with national and local healthcare operators on a number of factors, including quality, price and range of services provided, reputation, location and demographics of the population in the surrounding area, as well as the financial condition of its tenants and operators. Also, the company's operators contend with peers for occupancy and to manage labor costs. This significantly limits its power to drive its top line as well as crack deals at attractive rates.
- ▼ Shares of Ventas have declined 8.3%, as against the industry's rally of 17.5% over the past year. In addition, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as estimates have declined over the past month. Hence, given the above-mentioned concerns and negative estimate revision, the stock is unlikely to perform well in the upcoming period.

Dependence on few tenants and intense competition with national and local operators are concerns for Ventas. Further, higher supply of senior housing assets curtails its pricing power.

Last Earnings Report

Ventas' Q3 FFO Surpasses Estimates, Revenues Climb Y/Y

Ventas reported third-quarter 2019 normalized FFO per share of 96 cents, beating the Zacks Consensus Estimate of 94 cents. However, the figure came in lower than the year-ago tally of 99 cents.

The company witnessed higher rental income from its office and triple-net leased portfolio. Moreover, higher revenues from resident fees and services boosted top-line growth.

In fact, Ventas posted revenues of \$983.2 million, which surpassed the Zacks Consensus Estimate of \$947.2 million. The top line also compared favorably with the year-ago number of \$936.5 million.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	3.79%
EPS Surprise	2.13%
Quarterly EPS	0.96
Annual EPS (TTM)	3.88

Quarter in Detail

For the third quarter, same-store cash NOI growth for the total property portfolio (1,107 assets) inched up 0.1% year over year. Segment wise, same-store cash NOI for the triple-net leased portfolio grew 2.1%, the office portfolio rose 3.7%, while senior housing operating properties portfolio registered a decline of 5%, year over year.

During the quarter, Ventas completed its investment in a portfolio of 29 Class-A apartment-like senior housing assets and five in-progress developments in the thriving Quebec senior-housing market through an equity partnership with Le Groupe Maurice.

Liquidity

Ventas exited third-quarter 2019 with cash and cash equivalents of around \$148.1 million, up from \$82 million recorded as of the prior-quarter end.

Outlook

Ventas revised its 2019 normalized FFO per share outlook to \$3.81-\$3.85, from the \$3.80-3.86 provided earlier. The 2019 Nareit FFO is now projected at \$3.82-\$3.87 per share, as compared with the prior estimate of \$3.90-\$3.97.

Recent News

Ventas Completes Investment in Quebec Portfolio With LGM - Sep 4, 2019

Ventas completed its investment in a portfolio of Class-A apartment-like senior housing assets in the thriving Quebec senior-housing market through an equity partnership with LGM. LGM will continue to manage the portfolio under its brand. The transaction will help strengthen Ventas' foothold in Canada.

The portfolio is valued at \$1.8 billion and consists of a highly-occupied stabilized portfolio, communities in lease-up as well as assets under development. Specifically, Ventas has acquired 87% of 34 communities rather than acquiring 85% of 35 communities, as previously announced this June, due to tax and legal structuring considerations.

The investment is a strategic fit as it will help Ventas diversify its assets, business model and operator base. Additionally, Ventas has the rights to fund and own all additional developments through an exclusive pipeline agreement with LGM. This will create a new platform for growth together with LGM.

The transaction will enable the companies to cater to the growing demand of an outstanding lifestyle for seniors. Additionally, the high-quality portfolio is highly occupied, offers stable cash flows, and built-in growth from existing and new development projects.

On completion of the investment, pro-forma NOI from Ventas' Canadian SHOP is expected to increase 10 percentage points to 22% of its total annualized SHOP NOI. Further, the company's Canadian assets will account for 8% of its NOI, while LGM will represent 4% NOI.

The deal is expected to be neutral to 2019 normalized FFO per share and accretive to 2020 normalized FFO by around 3 cents per share.

Dividend Update

On Dec 6, Ventas announced its fourth-quarter 2019 cash dividend of 79.25 cents per share. The dividend was paid on Jan 13, to the shareholders of record on Jan 2, 2020.

Valuation

Ventas' shares have been down 8.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 17.5% and 9.3%, over the past year.

The S&P 500 Index has been up 21% over the past year.

The stock is currently trading at 15.98X forward 12-month FFO, which compares to 19.26X for the Zacks sub-industry, 15.03X for the Zacks sector and 19.36X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.29X and as low as 11.41X, with a 5-year median of 15.11X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$63 price target reflects 16.85X FFO.

The table below shows summary valuation data for VTR.

Valuation Multiples - VTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.98	19.26	15.03	19.36
	5-Year High	19.29	19.26	16.21	19.36
	5-Year Low	11.41	14.32	12.01	15.18
	5-Year Median	15.11	16.11	14.15	17.47
P/S F12M	Current	5.68	8.69	6.55	3.58
	5-Year High	7.79	8.69	6.65	3.58
	5-Year Low	4.72	5.91	5.39	2.54
	5-Year Median	6.08	6.88	6.04	3
P/B TTM	Current	2.06	3.02	2.86	4.36
	5-Year High	2.94	3.02	2.89	4.42
	5-Year Low	1.55	2.07	1.83	2.85
	5-Year Median	2.09	2.52	2.51	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (160 out of 255)



Top Peers

Healthcare Realty Trust Incorporated (HR)	Neutral
Healthcare Trust of America, Inc. (HTA)	Neutral
LTC Properties, Inc. (LTC)	Neutral
Medical Properties Trust, Inc. (MPW)	Neutral
Omega Healthcare Investors, Inc. (OHI)	Neutral
Healthpeak Properties, Inc. (PEAK)	Neutral
Sabra Healthcare REIT, Inc. (SBRA)	Neutral
Welltower Inc. (WELL)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VTR Neutral	X Industry	S&P 500	PEAK Neutral	SBRA Neutral	WELL Neutral
VGM Score	D	-	-	F	D	F
Market Cap	22.27 B	3.04 B	24.61 B	18.47 B	4.51 B	36.20 B
# of Analysts	8	4	13	9	6	10
Dividend Yield	5.31%	3.89%	1.78%	3.97%	8.08%	3.90%
Value Score	D	-	-	F	D	F
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.01
EV/EBITDA	19.66	18.38	14.06	12.96	11.16	25.81
PEG Ratio	6.78	3.60	2.09	7.04	-5.86	5.44
Price/Book (P/B)	2.06	1.81	3.29	2.77	1.32	2.23
Price/Cash Flow (P/CF)	16.17	15.07	13.65	26.18	8.31	18.90
P/E (F1)	16.06	15.78	19.21	20.63	12.31	20.90
Price/Sales (P/S)	5.86	7.10	2.70	9.25	6.99	7.07
Earnings Yield	6.23%	6.33%	5.19%	4.85%	8.12%	4.78%
Debt/Equity	1.11	0.89	0.71	0.95	0.79	0.84
Cash Flow (\$/share)	3.70	2.26	6.92	1.43	2.68	4.73
Growth Score	D	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	-3.27%	2.91%	10.85%	-14.47%	-0.89%	-1.29%
Proj. EPS Growth (F1/F0)	-2.98%	3.77%	7.17%	2.78%	-2.69%	2.72%
Curr. Cash Flow Growth	-13.49%	12.17%	8.56%	-56.97%	76.21%	21.46%
Hist. Cash Flow Growth (3-5 yrs)	1.44%	16.89%	8.36%	3.55%	47.02%	10.27%
Current Ratio	0.72	1.26	1.23	0.95	1.35	1.85
Debt/Capital	52.66%	46.90%	42.91%	48.79%	44.23%	46.60%
Net Margin	12.73%	13.74%	11.81%	2.24%	1.53%	24.07%
Return on Equity	4.59%	4.52%	16.86%	0.68%	0.31%	8.13%
Sales/Assets	0.16	0.13	0.54	0.15	0.10	0.16
Proj. Sales Growth (F1/F0)	2.14%	4.76%	3.85%	11.90%	-6.68%	0.57%
Momentum Score	B	-	-	D	D	F
Daily Price Chg	2.05%	0.40%	0.06%	0.08%	3.96%	1.85%
1 Week Price Chg	1.87%	1.85%	2.47%	0.89%	-0.05%	-0.92%
4 Week Price Chg	1.89%	2.84%	0.59%	2.42%	-0.18%	3.20%
12 Week Price Chg	3.93%	7.31%	6.98%	8.65%	3.05%	6.97%
52 Week Price Chg	-7.71%	12.71%	16.62%	20.59%	12.69%	15.30%
20 Day Average Volume	1,846,337	466,077	2,020,569	2,910,250	1,709,044	1,899,398
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.15%	-2.16%	-0.84%
(F1) EPS Est 4 week change	-0.74%	0.00%	-0.05%	-0.15%	-3.21%	-1.21%
(F1) EPS Est 12 week change	-3.24%	-0.09%	-0.17%	-0.70%	-3.89%	-1.93%
(Q1) EPS Est Mthly Chg	-0.22%	0.00%	-0.24%	0.54%	-2.72%	-0.38%

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	B
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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