Wealthpin Pro

DECEMBER 2022

It's been a year of contradictions. The markets have risen to all-time highs, then fallen into a bear market.

Then, in the last days of November, equities briefly reached bull market territory again, before tumbling back down into bear territory.

Massive layoffs have hit the tech sector, yet **Amazon had its biggest Black Friday in history**.

The Fed has hiked interest rates at the quickest clip ever, yet the labor market refuses to die.

Quite a year indeed.

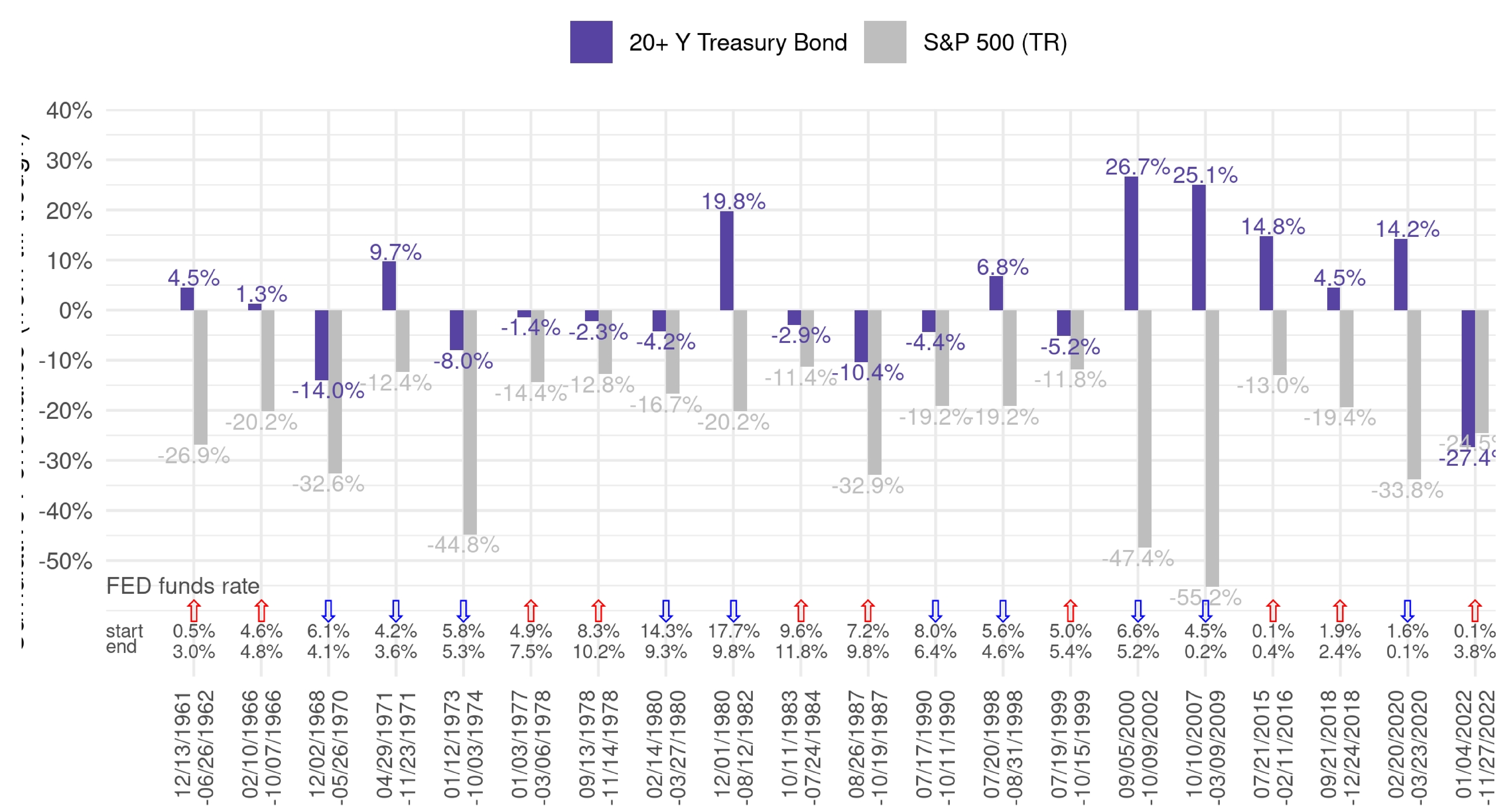
The truth is, we're living in unprecedented market conditions. The normal cadence of a recession just isn't unfolding. In virtually any other time, we would right now be in the midst of a pretty nasty recession.

Yet here we are. With an American economy that may not be at its strongest, but is most certainly not even close to being on life support.

Let's look at some of these contradictions up close, shall we?

A TREASURY MARKET LIKE NO OTHER

The excellent **Michael A. Gayed** recently posted this chart on Twitter:



This chart looks at the 20 largest drawdowns in the stock market since 1961.

The purple bar represents treasury bonds with maturation dates of over 20 years, and the gray bar is the S&P 500, both measured in percentages.

The basic gist of the markets is this:

When equities are soaring, bond prices go down because people aren't interested in the lower returns of "safe" bonds. When equities are down, bond prices go up because people flock to "safe" bonds to get away from the riskier equities.

So, it's all supply and demand.

Now, this is a simplified version. Bonds and stocks can both drop (as you can see in the chart), but in every past equity drawdown, bonds have either gone up, or if they have dropped, dropped less than risky equities.

Until now.

This is the first time since at least 1961 bonds have actually fallen MORE than equities.

This shouldn't be happening.

The S&P 500 has lost money 59.6% of the year. Bonds should be doing better. Instead, long-duration bonds have lost **money 68.1% of the year.**

What does all this mean?

Again, like everything else this year, it could mean two completely contradictory things.

The first possibility is that stocks are set to tumble by much, much more. Since the relationship between bond and equity prices are relative if equities sell off hard in the coming months, all of a sudden the relative strength of bond prices would become more in line with historical patterns (if bond prices remain where they are now).

The second possibility is that we're simply living in a historical anomaly. And stocks have already absorbed the supply chain shocks and inflation. If this is the case, the worst of the storm could be over, and equities can resume their march upwards.

We won't know which of these two possibilities is the correct one until it happens. So, as much as a time machine would be great, as investors we have to figure out a way to manage with the limited, conflicting information we do have.

I'm not ready to go on record and say that the mini/invisible/not-clearly defined recession is over and stocks are about to go the moon.

But I'm also not going to be a doomer, and say that the world is falling down.

So, like the markets, the trade idea for this month is going to walk in both worlds.

For the bear side, this company is entrenched in a normally recession-resistant industry. And it also offers a dividend that can provide investors with much-needed income even during a downturn.

On the bull side, this stock has also been drawn down over the course of 2022. And the new lower price offers an attractive buying opportunity. While the share price stands to appreciate regardless of overall market conditions, a return to bullish equities could pour gasoline on the fire and send its share price even higher.

So, let's get right to it.

MEDICAL PROPERTIES TRUST (NYSE: MPW)

PRICE AT PUBLICATION: $12.96

MARKET CAP AT PUBLICATION: $7.76 BILLION

SHARES OUTSTANDING: 598 MILLION

52-WEEK RANGE: $9.90-$24.13

THE ELEVATOR PITCH

Medical Properties Trust (NYSE: MPW) is a Real-Estate investment Trust (REIT) that buys healthcare properties and then rents them out to healthcare companies.

They offer a nice dividend yield of 8.96%, which has increased for nine years straight. The stock has been beaten down as of late, and is trading around 50% off its yearly high.

However, the reliability of the business model, combined with competent management decisions means that MPW is setup for significant upside. Plus, you get a dividend higher than current interest rates.

THE THOUGHT PROCESS

We've living in a "Who knows?" period of the market and the economy. Some data shows that the economy is doing well, all things considered. But then other data is showing that the economy is sputtering or heading towards a dramatic downturn.

For instance, we entered a new bull market this month. And the latest jobs report showed that unemployment was still relatively low and payrolls were holding steady.

At the same time, however, supply chain issues are still plaguing the economy. Gas prices are only being kept artificially low by the draining of the strategic petroleum reserve. And some companies – mainly in the tech sector – have been laying off workers left and right.

And of course, you have the Fed. They've openly said that they intend to crush the economy in order to tame inflation. So, any positive news that comes out only strengthens their resolve to keep hiking interest rates.

In other words, good news is bad news.

Which means we've found ourselves in quite the pickle, eh?

Of course, this presents a problem for investors:

Do we go risk on, and try to maximize equity growth as this new bull market kicks off?

Or do we dig in the trenches, go risk off, and try to protect ourselves from the recession the Fed is actively trying to instigate?

Unfortunately, we're all stuck in no-man's land right now. Who knows how this whole boondoggle will play out.

Without any clear direction, there's only one course of action:

To play both sides.

Investors should search out companies that have inflation and recession-resistant assets, but also provide the prospects for growth should the economy continue to remain strong.

Enter Medical Properties Trust.

THE BUSINESS MODEL

Ben Franklin once said:

"Nothing is certain in life but death and taxes."

That's true. Unfortunately, though, it's also almost certain that we'll end up sick or in need of medical care before we die.

Which is why – even in the worst of economic situations – hospitals can be a safe bet.

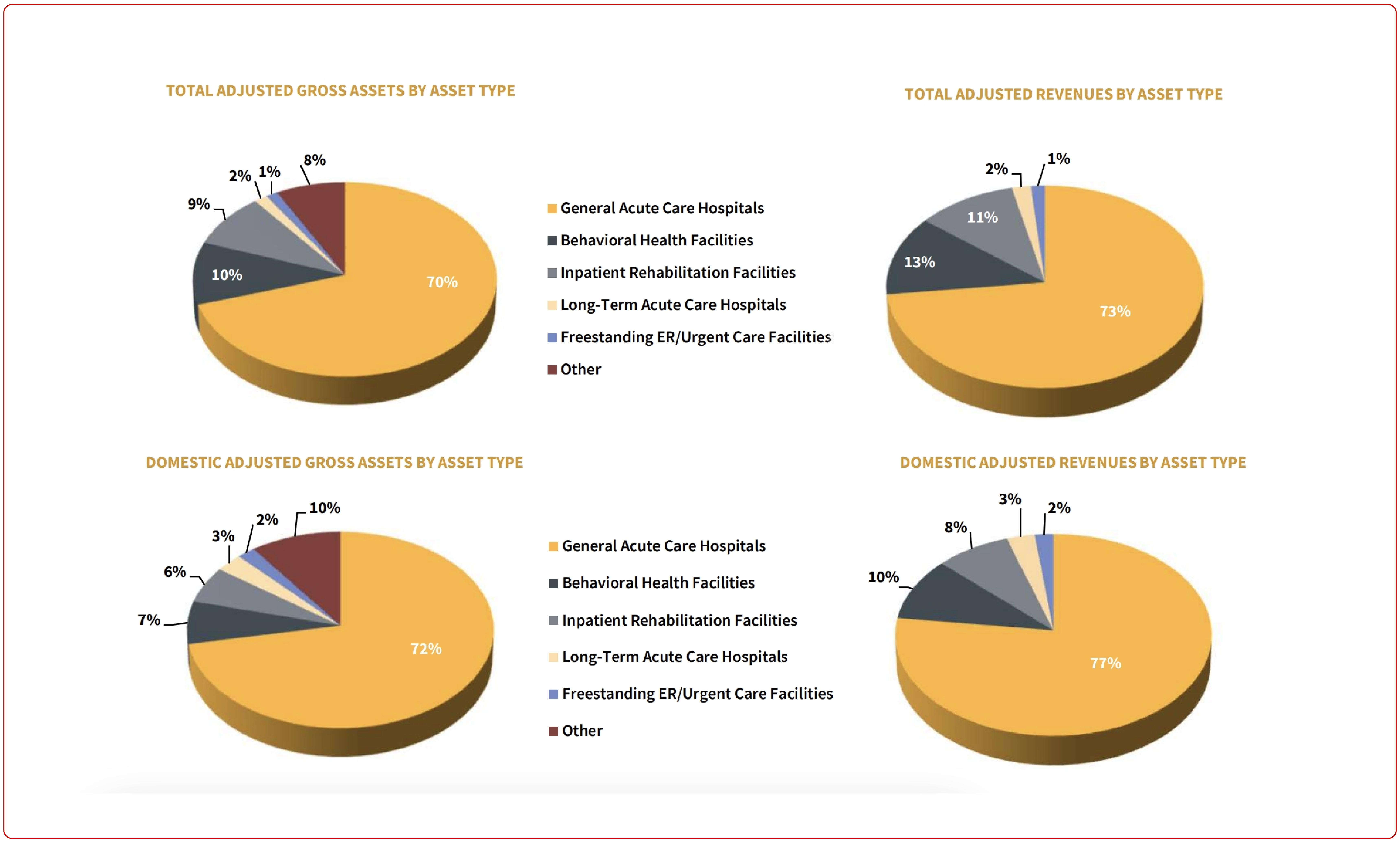
Medical Properties Trust is real-estate investment trust (REIT) that owns the physical real estate that hospitals and various other healthcare facilities occupy. It then rents out those spaces to healthcare companies.

We've talked about REITs before, but they allow you to invest in real estate without having to go through the pain of being your own landlord. (Not to mention, you don't have to come up with the tens of millions of dollars it takes to buy commercial real estate assets.)

The important thing about REITs is they have to pay out 90% of their revenue to shareholders. These come in the form of dividends. So, for investors who are into income, REITs can be an excellent choice.

Alright, let's get back to MPW.

Per their supplement investor report, general care facilities take up more than 70% of the medical properties MPW owns.



MPW also double-dips by investing in the healthcare companies that operate its properties.

Which helps to explain why the stock has been so badly battered this year.

A BAD YEAR BEHIND US

MPW has been battered in 2022.

It fell over 50%, before rebounding a bit at the time of this writing.

However, despite the poor results this year, the company is well-positioned to grow over the coming months. And the new lower price offers an excellent entry price.

The biggest reason the stock has been battered this year can be summed up in one word: COVID. The pandemic has put hospital operators (the company that MPW rents to) under significant stress.

Even two years on, hospitals are still reeling from the COVID impact. Higher staffing costs, staff shortages, supply chain issues, and inflation are all taking a bite into hospital profits.

This has hit MPW's operators hard as well. However, it's important to note that MPW is well-diversified across 437 different care facilities. And no one facility is overrepresented on their balance sheet.

From MPW's most recent annual report:

Operators	Largest Individual Facility as a Percentage of Total Adjusted Gross Assets (A)
Steward Health Care	2.7%
Circle Health	0.9%
LifePoint Health	1.4%
Prospect Medical Holdings	1.0%
Swiss Medical Network	0.9%
49 operators	1.2%
Largest Individual Facility Investment is Less Than 3% of MPT Investment Portfolio	

In other words, MPW is anti-fragile. They can take the hit of a poorly performing operator, and keep on ticking.

Not only that, the industry as a whole is showing signs of turning around. So too are the troubled locations in MPW's portfolio.

The way hospitals get money is that you go to get a service, say an MRI or a surgery. If you have insurance, you pay your co-pay or premium. Then the hospital has to go to the insurance company and negotiate with them to get paid back for services rendered.

The problem is, the rampant inflation and supply chain issues have left the reimbursement rates out of whack with the costs of services. However, according to MPW CEO Ed Aldag in the latest earnings call:

And more notably, these rates are adjusted at various intervals based on prior year's data. What this means is that reimbursement rates are not currently reflective of the increase in cost of care for patients that hospitals have incurred over the last year or two. CMS will catch up. Remember, historically, Medicare rates have on a whole outpaced inflation. It is also important to note that our operators contract with and are reimbursed by numerous distinct payers. The terms of these contracts generally range from one to three years.

He went on:

Our operators are actively negotiating new contracts with their payers and expect to be successful in negotiating increased reimbursement rates that are even greater than CMS increases. It may not be immediate and all at once, but it is coming and in an escalating manner.

So, the cash flow issues that have been plaguing some of MPW's care facilities will soon be resolved, as the insurance companies catch up to the times.

BREAKING DOWN THE FINANCIALS

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
FFO INFORMATION:				
Net income attributable to MPT common stockholders	$ 221,793	$ 171,137	$ 1,043,071	$ 449,485
Participating securities' share in earnings	(288)	(328)	(1,035)	(1,088)
Net income, less participating securities' share in earnings	**$ 221,505**	**$ 170,809**	**$ 1,042,036**	**$ 448,397**
Depreciation and amortization	99,296	98,492	300,731	277,089
Gain on sale of real estate and other, net	(68,795)	(9,294)	(536,788)	(8,896)
Funds from operations	**$ 252,006**	**$ 260,007**	**$ 805,979**	**$ 716,590**
Write-off (recovery) of straight-line rent and other, net of tax	23,863	3,650	27,444	(1,601)
Non-cash fair value adjustments	(3,597)	(819)	(12,563)	(2,763)
Tax rate changes	-	-	(825)	42,746
Debt refinancing and unutilized financing costs	17	-	9,452	2,339
Normalized funds from operations	**$ 272,289**	**$ 262,838**	**$ 829,487**	**$ 757,311**
Share-based compensation	11,089	13,555	33,968	38,590
Debt costs amortization	4,543	4,584	14,716	12,693
Rent deferral, net	549	559	(6,494)	2,198
Straight-line rent revenue and other	(73,061)	(79,973)	(225,151)	(215,169)
Adjusted funds from operations	**$ 215,409**	**$ 201,563**	**$ 646,526**	**$ 595,623**

FFO stands for Funds From Operations and it's what REITs use to measure their cash flow, basically.

As you can see, MPW's financials are dramatically improved this year over last. Nine-month FFO is up 132%. And their adjusted FFO is up as well.

This shows that despite the challenging conditions of 2022, MPW was able to dramatically improve its business. With more favorable conditions heading into 2023 and beyond, MPW will be able to build on these encouraging results.

MEDICAL PROPERTIES TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)	**September 30, 2022 (Unaudited)**	**December 31, 2021 (Note 2)**
Assets		
Real estate assets		
Land, buildings and improvements, intangible lease assets, and other	$ 13,083,292	$ 14,062,722
Investment in financing leases	1,965,021	2,053,327
Real estate held for sale	—	1,096,505
Mortgage loans	305,504	213,211
Gross investment in real estate assets	15,353,817	17,425,765
Accumulated depreciation and amortization	(1,088,912)	(993,100)
Net investment in real estate assets	14,264,905	16,432,665
Cash and cash equivalents	299,171	459,227
Interest and rent receivables	117,555	56,229
Straight-line rent receivables	710,082	728,522
Investments in unconsolidated real estate joint ventures	1,422,010	1,152,927
Investments in unconsolidated operating entities	1,428,061	1,289,434
Other loans	200,245	67,317
Other assets	601,387	333,480
Total Assets	**$ 19,043,416**	**$ 20,519,801**
Liabilities and Equity		
Liabilities		
Debt, net	$ 9,476,144	$ 11,282,770
Accounts payable and accrued expenses	569,017	607,792
Deferred revenue	18,569	25,563
Obligations to tenants and other lease liabilities	146,438	158,005
Total Liabilities	10,210,168	12,074,130
Equity		
Preferred stock, $0.001 par value. Authorized 10,000 shares; no shares outstanding	—	—
Common stock, $0.001 par value. Authorized 750,000 shares; issued and outstanding — 598,983 shares at September 30, 2022 and 596,748 shares at December 31, 2021	599	597
Additional paid-in capital	8,537,145	8,564,009
Retained earnings (deficit)	433,339	(87,691)
Accumulated other comprehensive loss	(139,301)	(36,727)
Total Medical Properties Trust, Inc. stockholders' equity	8,831,782	8,440,188

But the picture gets even better. While MPW's total assets have declined by 7% year-over-year (largely due to a few real estate sales), the company's total debt and liabilities have decreased by 15%.

Which means that the company is increasingly well-capitalized. Which is important for a REIT that pays out as big a dividend as Medical Properties Trust does.

MPW's current dividend yield is 8.96%, or $1.15 per share. MPW has increased its dividend nine years running, and with the recent balance-sheet strengthening measures that the company has put in place, it looks poised to continue that growth over the coming years.

Combined with the dividend, MPW also offers an opportunity for a share price appreciation as well. The two other main competitors in the space – Community Healthcare Trust Inc. and CareTrust REIT Inc. – are trading at a price/FFO of 15.93 and 13.76, respectively.

This makes MPV's price/FFO ratio of just 7.19 especially attractive.

Conclusion:

We're adding Medical Properties Trust (NYSE: MPW) to our model portfolio with a buy limit of $13.10. Our 12-month price target is $24.

To your wealth,
Alex Reid
Founder, Wealthpin Pro