OMEGA Healthcare

Downgrading to Neutral as tenant issues linger, capping near term upside

Rating Change: NEUTRAL | PO: 31.00 USD | Price: 30.64 USD

Downgrading to Neutral, income rating to same/lower

We are downgrading Omega Healthcare Inc (OHI) to Neutral from Buy and lowering our income rating to "8" (same/lower) from "7" (same/higher). We are also lowering our PO to $31 from $33. Our downgrade to Neutral reflects our view that the stock has more limited upside given continued tenant issues, choppy external growth & risk to dividend.

December operator rent update falls short of expectation

SH triple net operator, Maplewood, has been short paying their contractual rent since 2Q23 with the expectation of reaching full contractual rent in 2024. The deficiencies have been covered by the security deposit held by OHI. However, the Operator Update in December noted that the remainder of the security deposit was exhausted and short paying has escalated with the expectation to continue into 2024. This compounds the negative news of SNF operators, Guardian and Lavie, which are also deficient in rent payments. Due to the uncertainty of near term recovery, we remain conservative and assume that these operator issues will now be resolved by 4Q24 (previously 3Q24).

External growth expected to be choppy for 2024

We are revising our view on external growth prospects in the medium term. We are lowering FY24 acquisition volumes to $400M (previously $600M). During the 3Q23 earnings call, OHI mentioned that the pipeline is, "borderline robust at this point, but still choppy". Given recent moves in interest rates and our economists forecast for rate cuts, we believe more traditional net lease REITs may come back into favor with investors. OHI saw an outsize benefit from higher rates given SNFs trade at elevated cap rates

Lowering PO to $31 and estimates; payout ratio concern

We are lowering our PO to $31 from $33. We derive our PO by applying a 2024 AFFO multiple of 12x (unchanged) to our 2024 AFFO estimate of $2.60 (previously $2.73). Estimate changes reflect a payout ratio greater than 100% until 4Q24 (see Exhibit 1). We are lowering the income rating to be conservative given the increase of the payout ratio. A positive offset to this is that OHI's current cash on hand is over $550M.

Estimates (Dec) (US$)	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
FFO / Share (Reported)	3.31	2.99	2.76	2.74	3.08
GAAP EPS	1.71	1.75	1.04	1.25	1.56
FFO / Share Change (YoY)	2.5%	-9.7%	-7.7%	-0.7%	12.4%
DPS	2.68	2.68	2.68	2.68	2.68
FFO / Share (Normalized)	3.31	2.99	2.76	2.74	3.08
AFFO / Share	3.14	2.77	2.60	2.60	2.93
Valuation (Dec)					
P/FFO (Reported)	9.3x	10.2x	11.1x	11.2x	9.9x
GAAP P/E	17.9x	17.5x	29.5x	24.5x	19.6x
Dividend Yield	8.7%	8.7%	8.7%	8.7%	8.7%
EV / EBITDA	12.8x	14.0x	14.5x	14.3x	12.6x
P/FFO (Normalized)	9.2x	10.3x	11.1x	11.2x	9.9x
P/AFFO	9.8x	11.1x	11.8x	11.8x	10.5x
NAV / Share	31.01	12.82	32.15	32.85	NA

Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4. 12646143

Timestamp: 16 January 2024 06:00AM EST

16 January 2024

Equity

Key Changes

(US$)	**Previous**	**Current**
Inv. Opinion	B-1-7	B-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	33.00	31.00

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Stock Data

Price	30.64 USD
Price Objective	31.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-2-8
52-Week Range	25.61 USD - 34.77 USD
Mrkt Val (mn) / Shares Out (mn)	7,842 USD / 256.0
Free Float	99.7%
Average Daily Value (mn)	62.74 USD
BofA Ticker / Exchange	OHI / NYS
Bloomberg / Reuters	OHI US / OHI.N
ROE (2023E)	6.2%
Net Dbt to Eqty (Dec-2022A)	131.2%
ESGMeter™	High

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See Key terms inside

See Exhibit 1 inside

iQprofile℠ OMEGA Healthcare

Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Rental Revenue	1,063	878	942	977	1,104
Property Net Operating Income (NOI)	1,049	861	925	961	1,088
EBITDA (Adjusted)	1,008	919	889	904	1,019
Net Income (Adjusted)	429	633	222	309	396
Funds From Operations (FFO)	810	730	689	700	806
% Change	6.5%	-9.9%	-5.6%	1.5%	15.1%
Normalized Funds from Operations (FFO)	810	730	689	700	806
% Change	6.5%	-9.9%	-5.6%	1.5%	15.1%
Fully Diluted Shares (Year Average)	244	244	249	255	261

Cash Flow Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Flow from Operation (CFO)	722	626	601	643	743
Capital Expenditure	(45)	(47)	(34)	(42)	(44)
Straight Line Rent / FAS 141	3	(5)	(8)	7	3
Adjusted FFO	768	677	648	665	765
Dividends	-663	-663	-669	-684	-700
Free Cash Flow	105	14	-21	-20	65
Issue (Purchase) Equity	274	(134)	327	199	171
Share / Issue Repurchase	274	(134)	327	199	171
Cost of Dividends Paid	(663)	(663)	(669)	(684)	(700)
Change in Debt	97	8	(233)	80	100

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Marketable Securities	21	297	482	279	206
Properties at Cost	8,950	8,860	8,432	8,872	9,258
Total Assets	9,638	9,405	9,093	9,003	8,970
Total Debt	5,254	5,287	5,058	5,139	5,239
Total Liabilities	5,530	5,602	5,335	5,415	5,515
Preferred Stock	0	0	0	0	0
Total Equity	4,108	3,803	3,758	3,588	3,454
Total Equity & Liabilities	9,638	9,405	9,093	9,003	8,970

Key Metrics (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Acquisitions	603	238	310	400	400
Cap Rate	*8.6%*	*5.4%*	*9.7%*	*10.0%*	*10.0%*
Developments	0	0	15	58	1
Cap Rate	*NA*	*NA*	*NA*	*NA*	*NA*
Dispositions	(293)	(118)	(466)	(60)	(60)
Cap Rate	*6.5%*	*0%*	*8.0%*	*8.0%*	*8.0%*
Same Store Revenue Growth	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Invested Capital (ROIC)	11.7%	9.7%	11.0%	10.8%	11.8%
Operating Margin	98.7%	98.1%	98.2%	98.3%	98.5%
Interest Cover	4.3x	3.9x	3.8x	3.9x	4.1x

Company Sector

REITs

Company Description

Omega Healthcare Investors, Inc. (OHI) is a publicly traded, internally managed healthcare REIT that is focused on owning Skilled Nursing Facilities (SNFs). The majority of its assets are SNFs but OHI also owns assisted living facilities, specialty facilities and a medical office property.

Investment Rationale

Our Neutral rating is driven by portfolio condition following lease restructuring, healthy cap rates among SNF investments, expected choppiness in investment volumes, and prolonged tenant issues. We believe the worst is behind us from a fundamental perspective, but may take more time to fully recover. Skilled mix and occupancy has been improving which we expect to continue helping to minimize future CF issues across the tenant base. We remain vigilant on the dividend given elevated payout ratio.

Stock Data

Average Daily Volume	2,047,705

Quarterly Earnings Estimates

	2022	2023
Q1	0.74A	0.66A
Q2	0.76A	0.74A
Q3	0.76A	0.71A
Q4	0.73A	0.65E

Exhibit 1: Dividend payout ratio
Update to the AFFO Dividend Payout Ratio

	Previous	New
4Q23E	105%	110%
FY23E	102%	103%
1Q24E	106%	112%
2Q24E	102%	109%
3Q24E	94%	100%
4Q24E	92%	93%

Source: BofA Global Research

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Key terms:

SH: Senior Housing
SNF: Skilled Nursing Facility
AFFO: Adjusted Fund from Operations

Price objective basis & risk

OMEGA Healthcare (OHI)

Our $31 price objective for OHI is derived by applying an adjusted funds from operations (AFFO) multiple to our 2024 forward AFFO estimate. We use a target AFFO multiple of 12.0x to our 2024 AFFO estimate, to be slightly above OHI's historical average of 11x.

Risks to our price objective are increased government reimbursement pressure, better-/weaker-than-expected SNF demand from the aging of America, operator issues may rise again, volume/pricing of acquisition opportunities, and more / less government support. The pace of occupancy recovery post COVID is also a key risk.

Analyst Certification

I, Joshua Dennerlein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
NEUTRAL				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein
	Realty Income	O	O US	Jeffrey Spector

US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel
UNDERPERFORM				
	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffler Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel
	Tanger Factory	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein
RSTR				
	Spirit Realty Capital	SRC	SRC US	Joshua Dennerlein

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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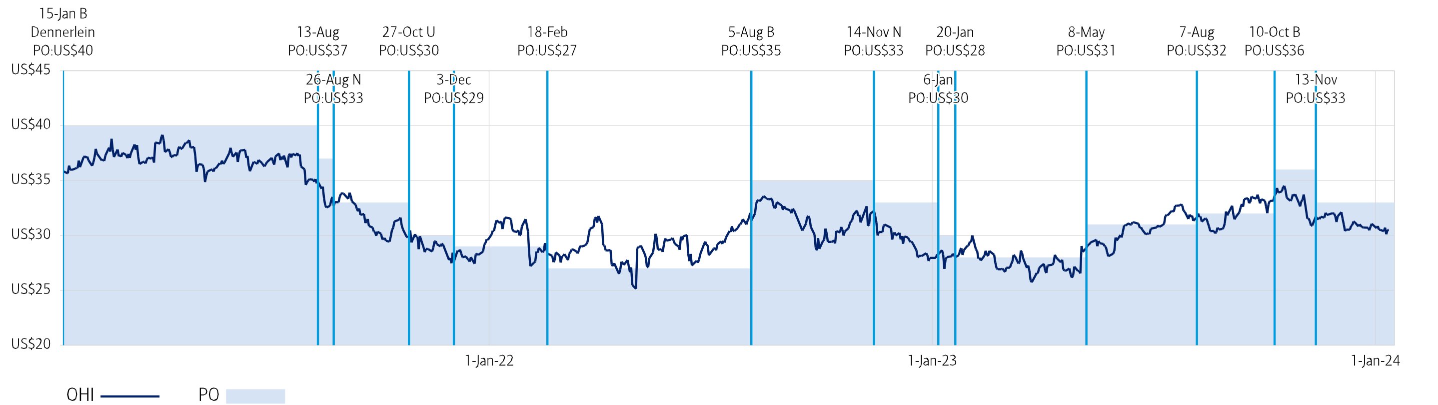
Important Disclosures

OMEGA Healthcare (OHI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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