

Ventas, Inc.

# Upgrading to Buy on external growth opportunities

Rating Change: BUY | PO: 53.00 USD | Price: 49.11 USD

## Strong core growth to be a product of external growth

We are upgrading Ventas Inc (VTR) to Buy from Neutral and increasing our PO to \$53 from \$48. Our upgrade reflects our view that VTR's strong core growth (notably senior housing NOI) will flow to the bottom line in 2024 and 2025. Positively, we expect an acceleration in external growth through acquisition volumes in 2024. Also, discussions with management about 2025 lease expirations clarified risk for 2025.

## Improvement to cost of capital supports acquisitions

We believe that external growth will accelerate in 2024 based on management's positive tone towards future acquisition volumes during November Nareit. We are increasing our assumption for FY24 acquisition volumes to \$700M (previously \$600M). We are also updating our variable interest rate by cutting 100bps for 2024 and 2025 in line with the [BofA's US Economic Viewpoint](#) forecasts and marking equity to market. These improvements in VTR's cost of capital (equity/debt) bode well for accretive growth.

## Kindred and Brookdale lease expiration deadline notice

Conversations with management highlighted lease renewal notice deadlines for two key operators within the net lease portfolio. Currently 40% of the Net Lease portfolio is set to expire in 2025. However, notice of the lease extension/rejection is due in 2024. Based on our analysis, if assuming lease termination of the Kindred assets, there is still 7.2% growth in 2025 AFFO. We note the risk of lease termination and renegotiation in 2024 and 2025 but remain positive given embedded growth. See inside for more detail.

## Raising our PO to \$53 and increasing 2024 estimates

We are raising our PO to \$53 from \$48. We derive our PO by applying a 2024 AFFO multiple of 20.5x (previously 19x) to our 2024 AFFO estimate of \$2.60 (previously \$2.53). We are increasing our multiple and estimates given our assumption of external growth for 2024 and 2025. Downside risk is the termination of Kindred leases and resistant interest rates. Upside risks are stronger than expected external growth and stronger than expected lease negotiations between Kindred/Brookdale and VTR.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
FFO / Share (Reported)	2.90	2.99	3.00	3.27	3.61
GAAP EPS	0.13	(0.12)	0.13	0.27	0.59
FFO / Share Change (YoY)	-12.7%	3.1%	0.3%	9.0%	10.4%
DPS	1.80	1.80	1.80	1.89	1.98
FFO / Share (Normalized)	2.90	2.89	3.00	3.27	3.61
AFFO / Share	2.24	2.34	2.37	2.60	2.95
<b>Valuation (Dec)</b>					
P/FFO (Reported)	16.9x	16.4x	16.4x	15.0x	13.6x
GAAP P/E	377.8x	-409.3x	377.8x	181.9x	83.2x
Dividend Yield	3.7%	3.7%	3.7%	3.8%	4.0%
EV / EBITDA	NA	NA	74.7x	17.6x	16.1x
P/FFO (Normalized)	16.9x	17.0x	16.4x	15.0x	13.6x
P/AFFO	21.9x	21.0x	20.7x	18.9x	16.6x
NAV / Share	40.94	47.13	50.23	55.85	NA

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12646097

Timestamp: 16 January 2024 06:00AM EST

16 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	48.00	53.00

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BofAS

### Stock Data

Price	49.11 USD
Price Objective	53.00 USD
Date Established	15-Jan-2024
Investment Opinion	B-1-7
52-Week Range	39.33 USD - 53.15 USD
Mkt Val (mn) / Shares Out (mn)	19,971 USD / 406.7
Free Float	99.4%
Average Daily Value (mn)	112.85 USD
BofA Ticker / Exchange	VTR / NYS
Bloomberg / Reuters	VTR US / VTR.N
ROE (2023E)	0.5%
Net Dbt to Eqty (Dec-2022A)	128.8%
<b>ESGMeter™</b>	<b>High</b>

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

### Key terms:

SHOP: Senior Housing Operating portfolio

NOI: Net Operating Income

AFFO: Adjusted Funds from Operations

# iQprofile<sup>SM</sup> Ventas, Inc.

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Rental Revenue	3,738	4,077	4,484	4,942	5,349
Property Net Operating Income (NOI)	1,650	1,794	1,917	2,126	2,320
EBITDA (Adjusted)	0	0	461	1,956	2,137
<b>Net Income (Adjusted)</b>	<b>49</b>	<b>(47)</b>	<b>54</b>	<b>112</b>	<b>252</b>
<b>Funds From Operations (FFO)</b>	<b>1,119</b>	<b>1,207</b>	<b>1,217</b>	<b>1,356</b>	<b>1,547</b>
% Change	-10.5%	7.9%	0.8%	11.4%	14.0%
<b>Normalized Funds from Operations (FFO)</b>	<b>1,119</b>	<b>1,166</b>	<b>1,217</b>	<b>1,356</b>	<b>1,547</b>
% Change	6.1%	4.2%	4.4%	11.4%	14.0%
Fully Diluted Shares (Year Average)	386	403	405	415	428

## Cash Flow Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Funds from Operation (FFO)	1,119	1,207	1,217	1,356	1,547
Capital Expenditure	(185)	(222)	(215)	(226)	(233)
Straight Line Rent / FAS 141	185	222	215	NA	NA
Adjusted FFO	1,119	1,166	1,217	1,130	1,314
Dividends	-694	-728	-731	-785	-850
Free Cash Flow	425	438	486	346	464
Issue (Purchase) Equity	622	9	103	755	602
Share / Issue Repurchase	622	9	103	755	602
Cost of Dividends Paid	(694)	(728)	(731)	(785)	(850)
Change in Debt	(421)	478	5	(701)	(223)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Marketable Securities	150	123	650	0	11
Properties at Cost	30,167	30,425	32,033	33,337	34,430
<b>Total Assets</b>	<b>24,718</b>	<b>24,158</b>	<b>24,837</b>	<b>24,210</b>	<b>23,984</b>
Total Debt	13,422	13,629	14,770	14,069	13,846
<b>Total Liabilities</b>	<b>13,492</b>	<b>13,672</b>	<b>14,801</b>	<b>14,100</b>	<b>13,877</b>
Preferred Stock	0	0	0	0	0
Total Equity	11,226	10,486	10,036	10,110	10,107
Total Equity & Liabilities	24,718	24,158	24,837	24,210	23,984

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Acquisitions	2,928	436	43	700	600
Cap Rate	5.0%	5.5%	6.2%	6.5%	6.1%
Developments	0	0	303	579	460
Cap Rate	0%	0%	0%	0%	0%
Dispositions	(849)	(20)	(450)	(200)	(200)
Cap Rate	4.1%	0%	7.7%	6.0%	6.0%
Same Store Revenue Growth	NA	NA	NA	NA	NA

## Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Invested Capital (ROIC)	5.5%	5.9%	6.0%	6.4%	6.7%
Operating Margin	44.1%	44.0%	42.7%	43.0%	43.4%
Interest Cover	0x	0x	0.8x	3.4x	3.8x

## Company Sector

REITs

## Company Description

VTR is a fully integrated and self-administered equity REIT that acquires, invests and manages a portfolio of health care real estate across the US, Canada and UK. Its portfolio asset mix consists of senior housing assets, medical office buildings & life science, hospitals, IRF/LTACs, skilled nursing facilities, and loans.

## Investment Rationale

Our Buy rating on VTR is driven by: 1) our belief that the COVID 19 occupancy recovery in senior housing will continue to be faster than the market expects and demographic trends have shifted from a headwind to a tailwind. 2) external growth opportunities within acquisitions for 2024/2025.

## Stock Data

Average Daily Volume 2,297,856

## Quarterly Earnings Estimates

	2022	2023
Q1	0.79A	0.74A
Q2	0.72A	0.75A
Q3	0.76A	0.75A
Q4	0.73A	0.77E

## Lease expiration risk muted by growth prospects

### Kindred a pivotal piece to the puzzle; May due date

Kindred is an operator of net lease post-acute care facilities consisting of 29 properties, making up 6.8% of total NOI. These properties are divided into two groups of 6 and 23 properties. The 23 properties have an existing lease term that expires April 30, 2025. Written notice of extension is due to VTR on or before May 1, 2024. This remains a risk heading into 2025 due to possibility of lease rejection or negotiation in favor of a lower rent for Kindred.

### Brookdale showing operational strength into 2025

Brookdale is an operator of net lease senior housing facilities consisting of 121 properties making up 7.6% of total NOI. Similar to Kindred, Brookdale has a master lease renewal option due date of November 30, 2024 for the 2025 lease extension. Management is more positive on these assets and their performance. In the 3Q23 earnings call, "we are really happy to see improved performance across our portfolio, and it's been consistently improving... we'll look for more progress in that portfolio moving forward." Our model assumes that Brookdale accepts their lease extension option at current rates. We believe this is supportive of BofA's [Brookdale \(BKD\) Upgrade to Neutral](#) for improved operations.

### Risks muted compared to embedded growth

Discussions with management makes us more comfortable with the risk presented by the possibility of termination or negotiation of 40% of the net lease portfolio leases due to expire in 2025. We currently assume a 20% haircut to the Kindred NOI resulting from lease negotiations. From the core growth of the Senior Housing operating portfolio, coupled with our external growth updates, we see in Exhibit 1 that even with a termination of the Kindred leases our 2025 AFFO maintains positive growth of 7.2%.

This positive view on growth is further supported by VTR's PEG compared to peers. (See Exhibit 2 & Exhibit 3) Among Healthcare REITs, VTR screens best on 3-year PEG basis. We believe that the embedded growth in SHOP portfolio and external growth factors will be the drivers heading into 2024 and 2025.

#### Exhibit 1: Scenario Analysis - Kindred Lease Negotiation

Scenarios of lease negotiation haircuts and impacts on 2025 growth

Kindred lease haircut assumptions	2025 AFFO growth rate
Renewal - 0%	14.9%
10% haircut	14.1%
20% haircut	13.4%
30% haircut	12.6%
Termination - 100%	7.2%

Source: BofA Global Research

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#### Exhibit 2: Scenario Analysis - Impacts on 2024 AFFO PEG

Scenarios of lease negotiation haircuts and impacts on 2024 PEG

Kindred lease haircut assumptions	2024 PEG	2024 PEG (3-yr)
Renewal - 0%	1.92	1.41
10% haircut	1.92	1.44
20% haircut	1.92	1.47
30% haircut	1.92	1.51
Termination - 100%	1.92	1.82

Source: BofA Research: Priced as of 1.12.2024

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#### Exhibit 3: 2024 AFFO PEG

PEG analysis and rankings among Healthcare REITs

Ticker	Company name	Rating	2024E PEG	Rank	2024E PEG (3-yr)	Rank
VTR	Ventas Inc	BUY	1.92	2	1.47	1
WELL	Welltower Inc	BUY	1.66	1	1.71	2
SBRA	Sabra Health Care REIT Inc	BUY	2.45	3	2.14	3
OHI	Omega Healthcare Investors Inc	NEUTRAL	2.48	4	2.51	4
PEAK	Healthpeak Properties Inc	UNDERPERFORM	2.85	5	2.92	5
ARE	Alexandria Real Estate Equities	BUY	3.99	6	3.33	6

Source: BofA estimates, Bloomberg ; Priced as of 1.12.2024

2024 PEG is based on BofA's 2024 AFFO multiple and '24/'23 AFFO growth

2024 PEG (3-yr) is based on BofA's 2024 AFFO multiple, '26/'23 AFFO growth

Excluding MPW due to negative earnings growth

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## Price objective basis & risk

### Ventas, Inc. (VTR)

Our \$53 price objective is derived by applying an AFFO multiple to our 2024 forward AFFO estimate as we look to a more normalized earnings period. We apply a target AFFO multiple of 20.5x, which reflects the current market conditions.

Upside risks to our price objective are better-than-expected senior housing fundamentals, declining interest rates, and lower tenant risk.

Downside risks to our price objective are weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates

## Analyst Certification

I, Jeffrey Spector, 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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



## US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Realty Income	O	O US	Jeffrey Spector
	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 Hoffer 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
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iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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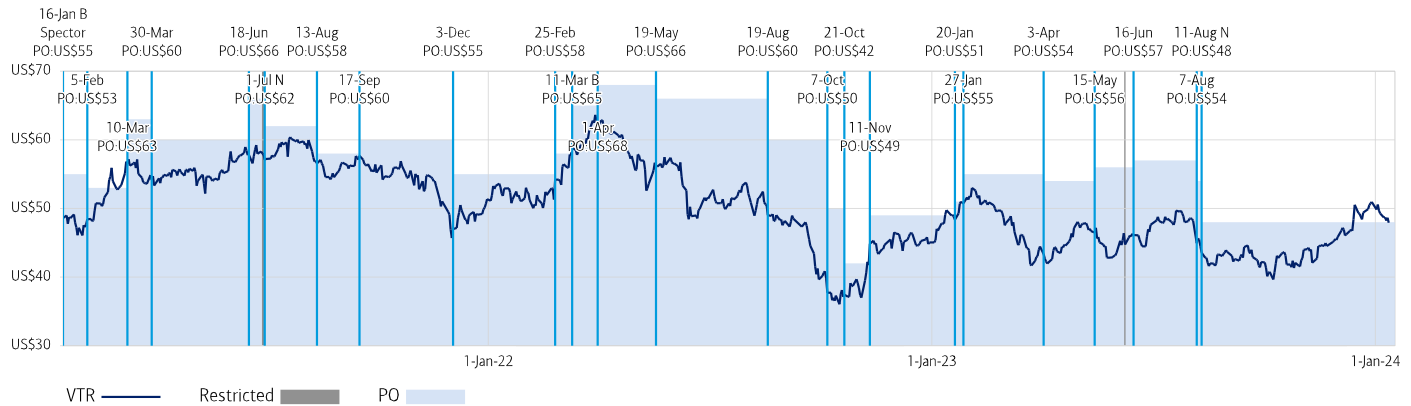
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# Disclosures

## Important Disclosures

### Ventas Inc. (VTR) 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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