SL Green Realty Corp. (SLG)

Updated January 26th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$38	**5 Year CAGR Estimate:**	17.8%	**Market Cap:**	$2.6 B
Fair Value Price:	$54	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	1/30/2023
% Fair Value:	70%	**5 Year Valuation Multiple Estimate:**	7.5%	**Dividend Payment Date:**	2/15/2023
Dividend Yield:	8.6%	**5 Year Price Target**	$69	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	B	**Rating:**	Buy

Overview & Current Events

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with a market capitalization of $2.6 billion, and currently owns 61 buildings totaling 33 million square feet.

In late January, SLG reported (1/25/2023) financial results for the fourth quarter of fiscal 2022. Its same-store net operating income rose 3.3% over the prior year's quarter but its occupancy rate dipped sequentially from 92.1% to 91.2%. Given also the negative effect of some assets sales, its funds from operations (FFO) per share decreased -3% over the prior year's quarter, from $1.52 to $1.47. The REIT missed the analysts' consensus by $0.01.

SLG has been severely hit by the pandemic, which has led many tenants to adopt a work-from-home model. Occupancy of office space in New York remains near historic lows. This has caused an unprecedented tenant-friendly environment and challenges to the business of SLG. The REIT offered average concessions of 9 months of free rent in its new leases last year. On the bright side, this metric improved to 7.4 months in the fourth quarter. Nevertheless, the impact of work-from-home trend has lasted much longer than expected. SLG has not provided guidance for 2023. It also cut its monthly dividend by 13% in the fourth quarter of 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	$5.16	$5.85	$6.38	$8.29	$6.45	$6.62	$6.99	$7.11	$6.80	$6.76	***$5.50***	***$7.02***
DPS	$1.49	$2.10	$2.52	$2.94	$3.14	$3.29	$3.44	$3.54	$3.64	$3.69	***$3.25***	***$3.40***
Shares[1]	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9	68.7	***68.0***	***60.0***

SLG benefits from long-term growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It also signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has grown its funds from operations per share at a 3.0% average annual rate in the last decade. Due to the effect of the pandemic on its business, funds from operations decreased in 2021 and 2022. The pandemic has subsided this year but the REIT has not begun to recover from the work-from-home trend yet. Nevertheless, we expect SLG to grow its funds from operations per share at a 5.0% average annual rate over the next five years off this year's low expected level.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	17.1	18.2	17.8	12.5	16.1	14.6	12.2	8.3	10.6	8.4	***6.9***	***9.9***
Avg. Yld.	1.7%	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	5.1%	5.0%	6.5%	***8.6%***	***4.9%***

SLG has traded at an average price-to-FFO ratio of 13.6 during the last decade. Due to the impact of the work-from-home trend on its business and the impact of 40-year high inflation on its valuation, the REIT is currently trading at a

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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nearly 10-year low FFO multiple of 6.9. In order to be conservative, we assume a fair price-to-FFO ratio of 9.9, which is equal to the 4-year average of the stock. If SLG reaches our fair valuation level in five years, it will enjoy a 7.5% annualized boost to its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	36%	39%	35%	49%	50%	49%	50%	54%	55%	***59%***	***48%***

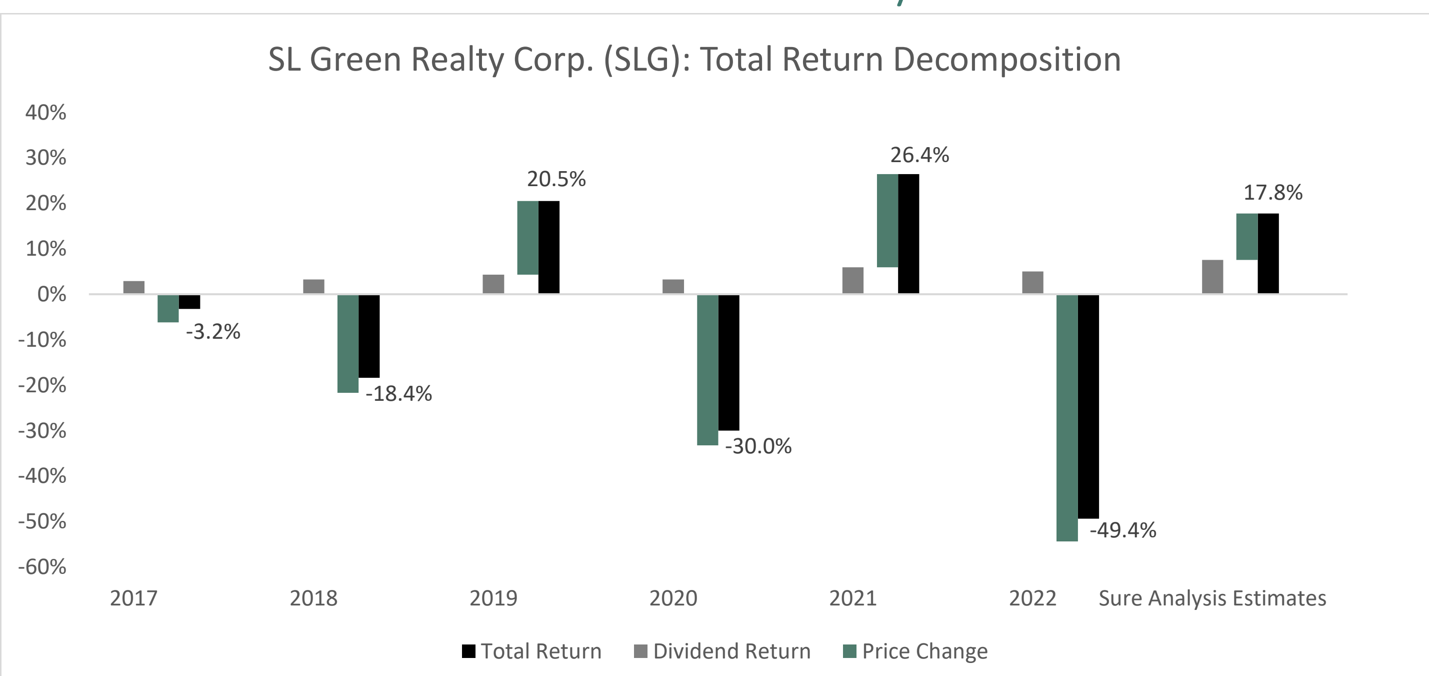
During the last 43 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. It has thus developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is under pressure due to the work-from-home trend, which has resulted from the pandemic. However, it has a decent balance sheet, with a healthy BBB credit rating. As a result, it can endure the ongoing crisis and emerge stronger whenever the work-from-home trend subsides. It can also maintain its attractive 8.6% dividend, which is well covered by cash flows, with a healthy payout ratio of 59%. SLG is thus suitable for income-oriented investors who can wait patiently for the recovery of the REIT from the pandemic. On the other hand, we note that SLG recently issued a great amount of debt to buy new properties and thus its net debt climbed to $6.9 billion, which is about 15 times the annual FFO and nearly triple the market capitalization of the stock. We will closely monitor the debt situation in the upcoming quarters.

Final Thoughts & Recommendation

SLG is the largest landlord in the area of Manhattan and thus it is ideal for those who want to benefit from the reliable, multi-year growth in rental rates in this area. The stock is currently facing the headwind from the work-from-home trend and nearly 40-year high inflation and thus it is trading at a nearly 10-year low valuation level. However, we expect more people to return to offices and inflation to subside in the upcoming years. Thanks to its 8.6% dividend, 5.0% annual growth of FFO per share and a 7.5% potential annualized expansion of its valuation level, SLG could offer a 17.8% average annual return over the next five years. We thus maintain our buy rating and advise investors to be patient.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,290	1,371	1,520	1,663	1,864	1,511	1,227	1,239	1,053	844
Gross Profit	788	859	988	1,096	1,269	941	779	780	664	497
Gross Margin	61.1%	62.7%	65.0%	65.9%	68.1%	62.2%	63.4%	63.0%	63.1%	58.9%
SG&A Exp.	83	86	92	95	100	100	93	101	92	95
D&A Exp.	352	358	400	588	846	419	290	284	325	228
Operating Profit	394	449	523	440	349	437	179	400	198	162
Operating Margin	30.5%	32.7%	34.4%	26.5%	18.7%	28.9%	14.6%	32.3%	18.8%	19.2%
Net Profit	199	138	521	291	261	113	259	281	380	457
Net Margin	15.4%	10.0%	34.3%	17.5%	14.0%	7.5%	21.1%	22.7%	36.1%	54.2%
Free Cash Flow	347	386	490	526	644	543	442	376	554	256

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	14,386	14,959	17,097	19,728	15,858	13,983	12,751	12,766	11,708	11,067
Cash & Equivalents	190	207	281	255	279	128	129	166	266	251
Accounts Receivable	397	447	432	562	496	423	378	327	347	296
Long-Term Debt	6,520	6,920	8,179	10,275	6,482	5,855	5,542	5,508	4,929	4,017
Shareholder's Equity	6,017	6,303	6,715	7,066	7,103	6,003	5,680	5,219	4,688	4,543
LTD/E Ratio	1.01	1.06	1.18	1.41	0.88	0.94	0.94	1.01	1.00	0.84

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.4%	0.9%	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%	3.1%	4.0%
Return on Equity	3.4%	2.2%	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%	7.7%	9.9%
ROIC	1.5%	1.0%	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%	3.4%	4.6%
Shares Out.	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	69.9
Revenue/Share	14.30	14.81	15.69	16.50	18.29	15.04	14.18	14.69	13.61	11.57
FCF/Share	3.84	4.17	5.06	5.22	6.32	5.40	5.10	4.46	7.16	3.51

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.