STAG Industrial (STAG)

Updated June 13th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$27	**5 Year CAGR Estimate:**	10.3%	**Quality Percentile:**	N/A
Fair Value Price:	$26	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	N/A
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Total Return Percentile:**	N/A
Dividend Yield:	5.3%	**5 Year Price Target**	$34	**Valuation Percentile:**	N/A

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 360 buildings across 37 states in the U.S. Stag Industrial went public in 2011.

The focus of the REIT on single-tenant properties can lead some investors to the conclusion that it is a high-risk REIT. However, the REIT executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that are less than 0.1% of its revenues since its IPO.

Like most REITs, STAG Industrial has markedly underperformed the market in the last 12 months, as it has lost 5% whereas S&P has advanced 14%. The main reason behind this underperformance is the environment of rising interest rates. As interest rates rise, investors can find decent yields elsewhere and hence the yields of REITs become less attractive. Consequently, their valuation is pressured. Rising interest rates force REITs to refinance their debt at higher rates when it comes due. As a result, their interest expense increases.

On the other hand, investors should not ignore that the rising interest rates indicate that the economy is strong and STAG Industrial greatly benefits from a strong economy. In Q1, the REIT increased its FFO by 5% vs. last year, from $0.41 to $0.43 per share, and thus met the analysts' estimates while it experienced record leasing activity. As the business conditions look favorable for the REIT, the latter has rallied 8% since its last earnings report.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFO	----	----	----	$1.03	$1.25	$1.44	$1.33	$1.42	$1.43	$1.67	***$1.72***	***$2.30***
DPS	----	----	----	$0.73	$1.07	$1.20	$1.29	$1.36	$1.39	$1.41	***$1.42***	***$1.50***

Given the Q1 results of STAG Industrial, it is reasonable to expect it to post FFO around $1.72 per share this year. Moreover, STAG Industrial has grown its FFO at a 6.0% average annual rate in the last five years. It still has a market share that is less than 1% in its target market. Therefore, it has ample room to continue to grow for years and hence it is can be reasonably expected to keep growing at its recent pace in the upcoming years. If this happens, the REIT will grow its FFO per share from $1.72 this year to approximately $2.30 in 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg P/FFO	----	----	----	11.1	14.4	14.2	18.4	13.0	16.7	16.4	***15.7***	***14.9***
Avg. Yld.	----	----	----	6.4%	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	***5.3%***	***4.4%***

The P/FFO ratio of STAG Industrial has decreased in the last two years due to rising interest rates. Nevertheless, it is still higher than its historical average ratio of 14.9. As it is reasonable to expect the REIT to revert towards its average valuation level in the next five years, the REIT is likely to incur a 1.0% annualized drag due to P/FFO contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	----	----	----	10.0%	7.1%	8.7%	8.6%	9.3%	9.2%	9.1%	***9.0%***	***9.0%***
Debt/A	----	----	----	50.4%	51.3%	46.9%	45.3%	54.9%	51.2%	47.4%	***47.9%***	***50.0%***
Int. Cov.	----	----	----	1.1	0.5	1.0	0.8	0.2	1.8	1.8	***1.8***	***1.5***
Payout	----	----	----	70.9%	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	***82.6%***	***65.2%***
Std. Dev.	----	----	----	28.0%	15.4%	22.5%	21.8%	23.9%	27.2%	12.1%	***17.1%***	***20.0%***

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 4.7 years and about half of the leases maturing between 2022 and 2027. Thus the cash flows of the REIT can be considered fairly reliable. Thanks to these reliable cash flows, STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a generous 5.3% yield and has never cut its dividend throughout its short history so far. Moreover, while its payout ratio rose to markedly high levels during 2014-2016, it has fallen to healthy levels in the last two years.

On the other hand, the REIT heavily dilutes its shareholders on a regular basis (as is common with REITs). More precisely, it has more than doubled the number of its shares, from 42 M in 2013 to 94 M now. Consequently, the financial burden from its dividend has greatly increased. While the dividend per share has risen only 17% since 2013, the annual amount paid has jumped 86%, from $76 M in 2013 to $141 M last year.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. As a recession has not shown up for 9 consecutive years and interest rates are on the rise, investors should certainly take this risk factor into account. Overall, STAG Industrial is likely to keep raising its dividend at a slow pace until a recession shows up. In such an event, the REIT will has an elevated probability of reducing its dividend due to the nature of its business model.

Final Thoughts & Recommendation

STAG Industrial continues to grow thanks to favorable economic conditions. This REIT is likely to offer a 10.3% average annual return over the next five years thanks to 6.0% annual growth in its FFO per share and its 5.3% dividend, which will be partly offset by a 1.0% annualized P/FFO contraction.

Total Return Breakdown by Year