Lamar Advertising Co. (LAMR)

Updated October 10th, 2018 by Josh Arnold

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	43.2%
Fair Value Price:	$70	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	69.1%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Growth Percentile:**	62.4%
Dividend Yield:	4.8%	**5 Year Price Target**	$98	**Valuation Percentile:**	43.2%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	64.0%

Overview & Current Events

Lamar Advertising traces its lineage back to 1906 when Charles Lamar helped form a small poster company in Florida. Since that time, the business has grown exponentially into an advertising giant with 150,000 outdoor displays in nearly every state, Canada and Puerto Rico. The company changed its corporate structure to become a REIT in 2014 and today, it trades with a $7.5 billion market capitalization and produces in excess of $1.6 billion in annual revenue.

Lamar reported Q2 earnings in early August (8/8/18) and results were largely in line with expectations. Total revenue rose 5.7% as acquisitions helped fuel some of those gains, but organic revenue rose as well. Diluted adjusted funds from operations, or FFO, rose 9.4% as the company not only had higher revenue, but better margins as well. Acquisition-related expenses came in below the rate of revenue growth attributed to those acquisitions, resulting in margin expansion for the trust. Q2 was strong enough that the company boosted its guidance for FFO for this year to $5.30 to $5.40 from a prior range of $5.15 to $5.30. Our estimate for this year is the midpoint of that guidance at $5.35.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFO	$3.71	$3.03	$2.94	$3.31	$3.25	$3.62	$4.08	$4.59	$5.00	$5.05	***$5.35***	***$7.50***
DPS	--	--	--	--	--	--	--	$2.50	$2.75	$3.02	***$3.64***	***$4.75***
Shares	92	92	93	93	94	95	96	97	97	98	***99***	***105***

Lamar's FFO-per-share history is quite different in the past few years than it was from 2008 to 2012. In the earlier period, Lamar struggled to grow and its FFO-per-share numbers show it; it produced less in FFO-per-share in 2013 than it did in 2008. However, since that time, Lamar has been busy growing organically and through acquisitions, and has grown FFO-per-share very nicely. We expect that we'll continue to see 7% growth in FFO-per-share moving forward.

We see revenue growth as the main driver of this growth as Lamar has chosen to grow both organically and by way of acquisition. We expect continued acquisitions in the years to come and combined with a small organic revenue tailwind, we expect mid-single digit total revenue growth for the foreseeable future. In addition, the additional revenue should provide some leverage on the company's largely fixed expense base, as it did in Q2. Lamar has significant indebtedness so interest expense consumes about one-quarter of operating income, but Lamar has done a nice job in recent years of keeping its debt at manageable levels. In total, we see years of meaningful growth ahead for Lamar as it continues to capitalize on the need for companies to advertise, in addition to its willingness to acquire future growth.

We forecast the dividend to rise at roughly the rate of FFO-per-share, producing a $4.75 payout in five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/FFO	3.4	10.3	13.6	8.3	11.9	14.4	13.1	13.1	13.4	14.7	***14.2***	***13.0***
Avg. Yld.	--	--	--	--	--	--	--	4.9%	4.8%	4.8%	***4.8%***	***4.8%***

Lamar's price-to-funds-from-operations ratio has moved around a lot in the past decade but more recently, has stabilized in the low double-digits. We see the valuation as slightly in excess of fair value, which we've estimated at 13 times FFO-per-share. At today's multiple of 14.2, that implies a modest 1.8% headwind to total returns in the years to come. With share price and dividend growth forecast to be roughly the same, we see the yield remaining at 4.8% for the foreseeable future. Lamar is a strong pick for dividend investors and that should not change anytime soon.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	63.5%	62.3%	63.5%	63.7%	64.4%	64.9%	64.8%	65.0%	65.0%	64.9%	***65.0%***	***65.0%***
Debt/A	79%	79%	78%	76%	75%	73%	70%	70%	73%	74%	***75%***	***75%***
Int. Cov.	1.1	0.5	0.7	1.1	1.1	1.4	2.4	3.9	3.5	3.5	***3.5***	***3.8***
Payout	--	--	--	--	--	--	--	55%	55%	60%	***68%***	***63%***
Std. Dev.	60%	127%	41%	47%	34%	19%	16%	14%	22%	21%	***25%***	***35%***

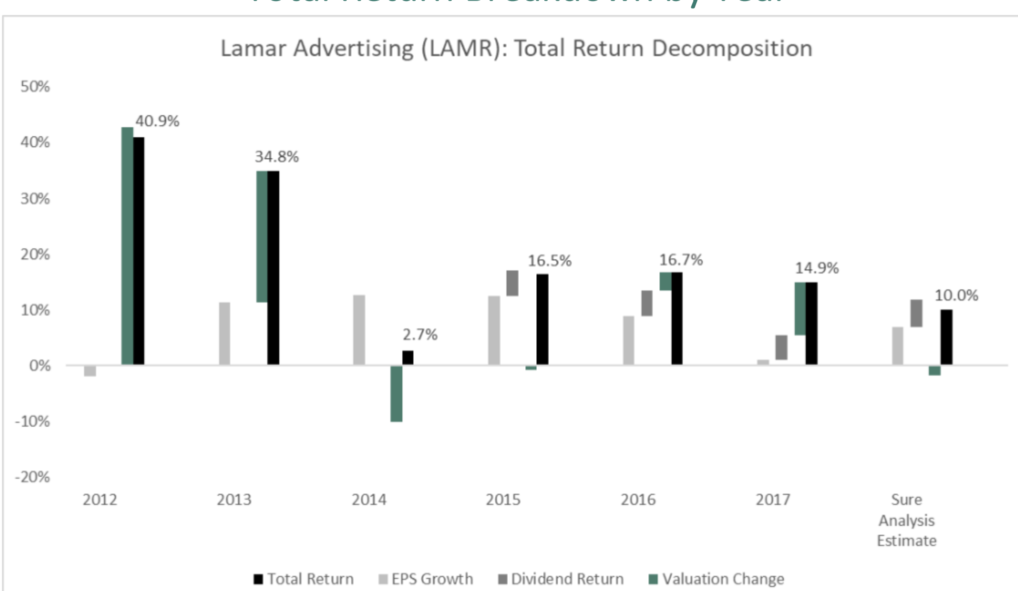
Lamar's quality metrics have been remarkably stable considering the amount of change the company has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have plateaued. The company's balance sheet remains around three-quarters encumbered by debt and that should remain the same. Interest coverage has improved markedly in recent years and with a strong FFO growth outlook, it should only improve further. The dividend is about two-thirds of FFO and we see it remaining in that area as the payout keeps pace with FFO growth. With that said, the company's Dividend Risk rating is only a D because of its short dividend history and above-average payout ratio (using earnings).

Lamar is somewhat susceptible to recession but during the Great Recession, its FFO-per-share dipped only briefly before recovering. Its immense size is certainly a competitive advantage and its long operating history and brand it has built over the past century is certainly a long-term asset. Lamar's competitive positioning should continue to improve with its acquisition-heavy strategy.

Final Thoughts & Recommendation

With a reasonable valuation, high yield and strong outlook, we rate Lamar a buy. While the valuation is slightly in excess of fair value, our estimate of 10% total annual returns is strong enough to warrant the buy recommendation. Returns will come from the 4.8% yield, 7% FFO-per-share growth and a 1.8% headwind from the valuation. Lamar is suitable for those seeking a high yield and some payout growth. With that said, Lamar Advertising earns just a D rating for Retirement Suitability due to a high payout ratio and significant (90%+) historical drawdowns in its stock price.

Total Return Breakdown by Year



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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.

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	1198	1056	1092	1131	1180	1246	1287	1353	1500	1541
Gross Profit	761	658	694	722	761	809	834	880	975	1000
Gross Margin	63.5%	62.3%	63.5%	63.8%	64.5%	64.9%	64.8%	65.0%	65.0%	64.9%
SG&A Expense	258	229	199	202	211	232	231	242	269	276
D&A Expense	332	337	313	300	296	301	258	191	205	211
Operating Profit	179	98	135	173	201	220	275	374	424	451
Operating Margin	14.9%	9.2%	12.3%	15.3%	17.0%	17.6%	21.4%	27.7%	28.3%	29.2%
Net Profit	2	-58	-40	7	8	40	254	263	299	318
Net Margin	0.2%	-5.5%	-3.7%	0.6%	0.7%	3.2%	19.7%	19.4%	19.9%	20.6%
Free Cash Flow	148	255	279	212	270	289	345	367	414	398
Income Tax	9	-36	-23	6	8	23	-110	22	13	9

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4117	3944	3649	3427	3514	3402	3319	3364	3899	4214
Cash & Equivalents	14	112	92	34	59	33	26	22	36	115
Accounts Receivable	N/A	N/A	N/A	147	160	162	170	174	190	202
PP&E	2901	2829	2797	2861	2940	3036	3110	3139	3294	3385
Goodwill	2190	2095	1996	1904	1953	1923	1880	1949	2364	2537
Intangible Assets	3246	3112	2830	2588	2652	2469	2337	2343	2829	3111
Total Liabilities	15	11	13	13	14	13	16	17	18	18
Accounts Payable	2814	2675	2409	2159	2161	1939	1900	1891	2349	2557
Long-Term Debt	871	832	819	839	862	933	981	1021	1070	1103
Shareholders' Equity	3.2	3.2	2.9	2.6	2.5	2.1	1.9	1.9	2.2	2.3
D/E Ratio	4117	3944	3649	3427	3514	3402	3319	3364	3899	4214

Profitability Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	0.1%	-1.4%	-1.1%	0.2%	0.2%	1.2%	7.5%	7.9%	8.2%	7.8%
Return on Equity	0.2%	-6.8%	-4.9%	0.8%	0.9%	4.5%	26.5%	26.2%	28.6%	29.2%
ROIC	0.1%	-1.6%	-1.2%	0.2%	0.3%	1.4%	8.8%	9.1%	9.4%	9.0%