Lamar Advertising (LAMR)

Updated November 14th, 2018 by Josh Arnold

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	40.3%
Fair Value Price:	$70	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	53.8%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.8%	**Growth Percentile:**	62.5%
Dividend Yield:	4.8%	**5 Year Price Target**	$98	**Valuation Percentile:**	36.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	55.2%

Overview & Current Events

Lamar Advertising traces its lineage back to 1902 when Charles Lamar helped form a small poster company in Florida. Since that time, the business has grown exponentially into an advertising giant with 350,000 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 $7.6 billion market capitalization and produces in excess of $1.6 billion in annual revenue.

Lamar reported Q3 earnings on 11/8/18 and while results beat expectation on an FFO-per-share basis, revenue came in a bit weak against analyst expectations. Total revenue was up 4.8% as same-unit digital revenue rose 7.2%, an impressive result. Acquisition-adjusted revenue rose 3.1%. Overall, all three important top-line metrics are roughly congruent with what the year-to-date results have looked like for Lamar. However, analyst expectations were for slightly better top line growth, while we view Lamar's top line performance as more than adequate.

Adjusted EBITDA was up 5.3% during the quarter while free cash flow rose 7%, reflecting Lamar's strong profitability. Diluted adjusted FFO-per-share increased 7.9% to $1.51 during the quarter, reflecting both revenue and margin gains. Lamar's growth for the first three quarters of the year has been slightly higher, with adjusted FFO-per-share expanding 9.5%, but Q3 certainly looked like a strong quarter despite higher operating and SG&A costs.

In addition, management said it was encouraged by strong pacings thus far in Q4, and that it is seeing better sales growth rates early on. Management also said that it was on track to potentially beat the midpoint of its FFO guidance range for 2018 of $5.30 to $5.40; our estimate therefore remains unchanged at $5.35 after Q3 results.

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***

At times in the past, Lamar has struggled to grow. Indeed, 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 growth as Lamar grows organically and through acquisition, so a mid-single digit revenue tailwind should drive results. The additional revenue should provide some leverage on the company's largely fixed expense base, improving margins. 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. 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%***

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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%***

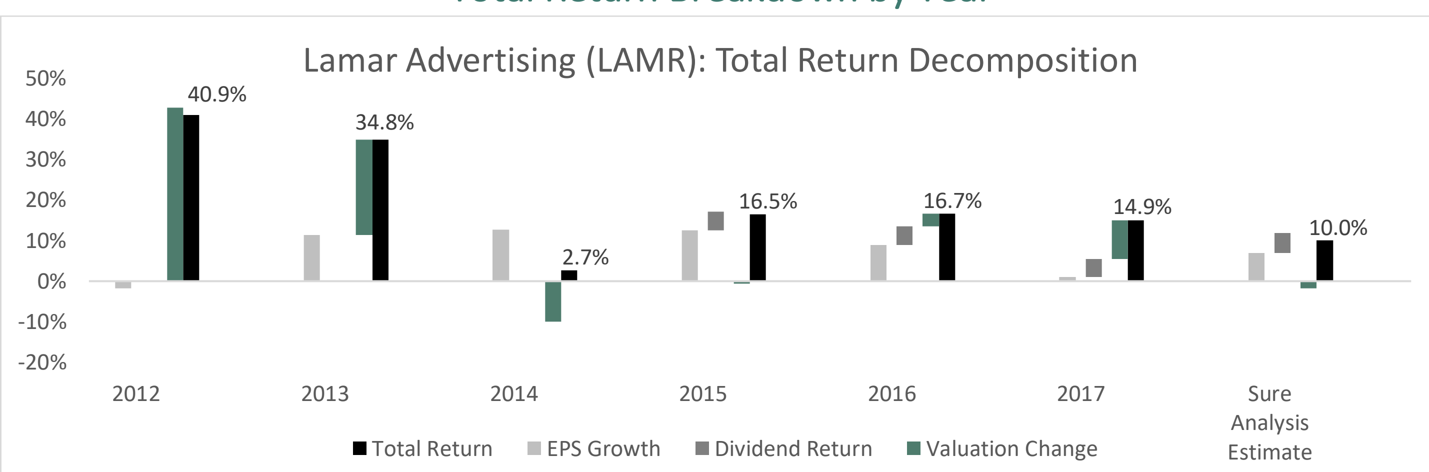
Lamar's quality metrics have been remarkably stable considering the amount of change the company has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have 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.

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 earns a buy recommendation for those seeking a high yield and some payout growth over time.

Total Return Breakdown by Year



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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 Exp.	258	229	199	202	211	232	231	242	269	276
D&A Exp.	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
Goodwill & Int. Ass.	2190	2095	1996	1904	1953	1923	1880	1949	2364	2537
Total Liabilities	3246	3112	2830	2588	2652	2469	2337	2343	2829	3111
Accounts Payable	15	11	13	13	14	13	16	17	18	18
Long-Term Debt	2814	2675	2409	2159	2161	1939	1900	1891	2349	2557
Shareholder's Equity	871	832	819	839	862	933	981	1021	1070	1103
D/E Ratio	3.23	3.22	2.94	2.57	2.51	2.08	1.94	1.85	2.20	2.32

Profitability & Per Share 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%
Shares Out.	92	92	93	93	94	95	96	97	97	98
Revenue/Share	12.98	11.51	11.84	12.14	12.60	13.15	13.51	14.04	15.36	15.67
FCF/Share	1.61	2.78	3.03	2.27	2.89	3.05	3.62	3.81	4.24	4.04

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