



STAG Industrial (STAG)

Updated November 7th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	\$26	5 Year CAGR Estimate:	11.5%	Volatility Percentile:	48.5%
Fair Value Price:	\$26	5 Year Growth Estimate:	6.0%	Momentum Percentile:	37.2%
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Growth Percentile:	48.1%
Dividend Yield:	5.5%	5 Year Price Target	\$35	Valuation Percentile:	51.4%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	69.1%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 381 buildings across 37 states in the United States. Stag Industrial went public in 2011.

The focus of the REIT on single-tenant properties might create higher volatility in cash flows compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial 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. As per the latest data, 55% of the tenants are publicly rated and 28% of the tenants are rated "investment grade".

Like most REITs, STAG Industrial has been adversely affected by the environment of rising interest rates. As interest rates rise, the yields of REITs become less attractive and hence their valuation is pressured. Moreover, rising interest rates force REITs to refinance their debt at higher rates when it comes due. REITs, utilities and MLPs are the most vulnerable securities to rising interest rates. On the other hand, rising interest rates indicate that the economy is strong and STAG Industrial benefits from a strong economy.

In early November, STAG Industrial reported (11/1/18) its financial results for the third quarter of fiscal 2018. The REIT grew its core FFO per share by 5% over last year, from \$0.43 to \$0.45, thanks to 18% growth in its FFO, which was partly offset by a 14% increase in its share count. During the quarter, the REIT acquired 15 buildings for \$194.5 million whereas it sold 4 buildings for a gain of \$3.2 million.

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	\$1.75	\$2.34
DPS	----	----	----	\$0.73	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.50
Shares	----	----	----	15.6	25.1	42.4	53.2	66.6	69.8	91.7	106.3	180.0

As the Q3 results of STAG Industrial were in line with our expectations, we have maintained our estimate for the FFO per share of this year at \$1.75. 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 \$1.75 this year to approximately \$2.34 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	14.9	14.9
Avg. Yld.	----	----	----	6.4%	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	4.3%

Due to its recent 10% correction, along with the broad market, STAG Industrial is currently trading at a P/FFO ratio of 14.9, which is equal to its historical average valuation level. As a result, we do not assume any gains or losses from change in its valuation level over the next five years.

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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%	48.0%	50.0%
Int. Cov.	----	----	----	1.1	0.5	1.0	0.8	0.2	1.8	1.8	1.5	1.5
Payout	----	----	----	70.9%	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	81.1%	64.1%
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 4.8 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 5.5% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to markedly high levels during 2014-2016, it has fallen to healthy levels in the last two years.

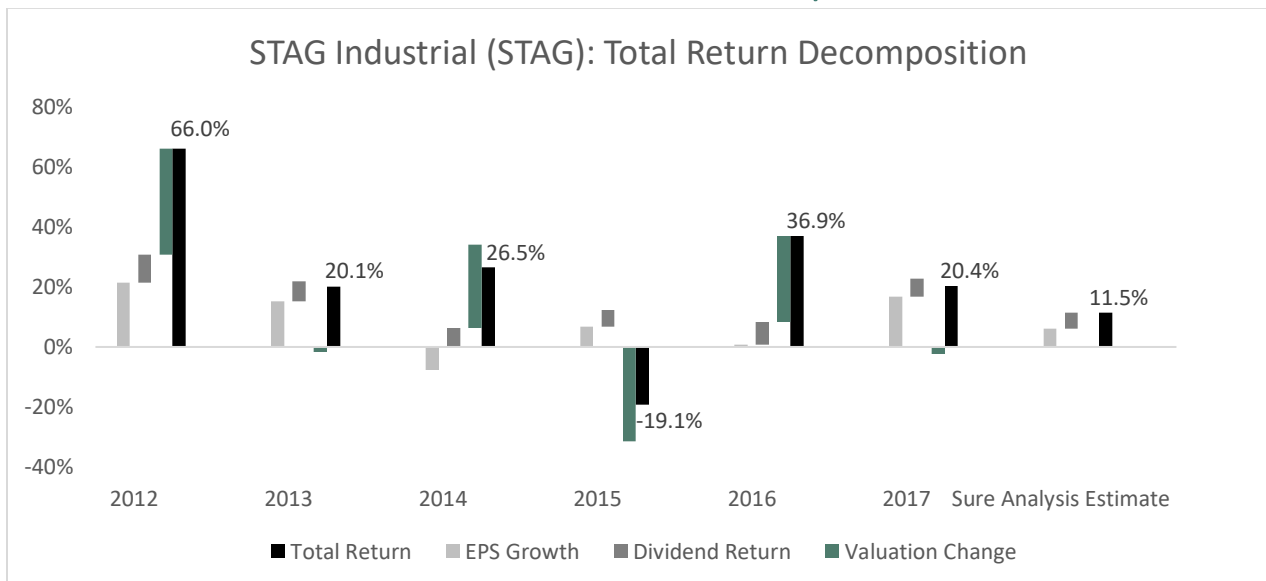
On the other hand, the REIT heavily dilutes its shareholders on a regular basis. Its share count has risen from 42 million in 2013 to 106 million now. While the dividend per share has risen only 18% since 2013, the annual amount paid has more than doubled, from \$76 million in 2013 to \$160 million this year.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. As a recession has not occurred 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 have 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. In the absence of a recession, this REIT is likely to offer an 11.5% average annual return over the next five years. The company is a potential buy for income-oriented investors looking to bolster their exposure to the industrial real estate sector.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	31	30	26	44	84	134	174	219	250	301
Gross Profit	28	25	20	39	71	110	140	176	201	243
Gross Margin	90.4%	82.3%	76.4%	87.6%	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%
SG&A Exp.	1	1	1	5	15	18	26	29	33	33
D&A Exp.	12	11	10	21	48	77	94	119	132	155
Operating Profit	12	10	10	10	14	24	26	37	43	59
Operating Margin	39.1%	34.5%	38.6%	23.6%	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%
Net Profit	-8	-6	-3	-5	-6	6	-4	-27	35	31
Net Margin	-25%	-18.4%	-11.4%	-10.3%	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%
Free Cash Flow	8	7	9	15	48	83	97	122	135	163

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	230	220	509	625	1005	1270	1629	1902	2186	2681
Cash & Equivalents	3	3	1	16	19	7	24	12	12	25
Accounts Receivable	4	4	N/A	6	9	14	17	21	25	34
Total Liabilities	223	222	266	315	516	596	738	1044	1119	1270
Accounts Payable	N/A	N/A	4	6	12	19	22	26	35	43
Long-Term Debt	216	212	240	297	479	556	686	980	1036	1174
Shareholder's Equity	7	-2	156	162	359	464	725	683	882	1214
D/E Ratio	32.95	-139	1.54	1.29	1.12	0.92	0.79	1.19	1.01	0.86

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	-2.5%	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%
Return on Equity	N/A	-221%	-3.8%	-2.9%	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%
ROIC	N/A	-2.6%	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%
Shares Out.	N/A	N/A	N/A	15.6	25.1	42.4	53.2	66.6	69.8	91.7
Revenue/Share	2.23	2.15	1.20	2.77	3.36	3.16	3.21	3.30	3.53	3.35
FCF/Share	0.57	0.50	0.43	0.96	1.92	1.95	1.79	1.84	1.91	1.81

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

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