Global Net Lease (GNL)

Updated January 14th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	10.9%	**Volatility Percentile:**	53.1%
Fair Value Price:	$20	**5 Year Growth Estimate:**	0%	**Momentum Percentile:**	85.9%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0%	**Growth Percentile:**	1.2%
Dividend Yield:	10.9%	**5 Year Price Target**	$20	**Valuation Percentile:**	47.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	58.0%

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. (53% of locations) and Europe (47% of locations) with an emphasis on sale-leaseback transactions. As of September 30th, 2018 the company owned 336 properties with total square footage of 26.2 million. Office properties accounted for 55% of the company's holdings, with industrial, distribution and retail making up the remaining 23%, 13% and 9% respectively. Global Net Lease is a $1.4 billion market cap business which generated $140.6 million in adjusted funds from operations (AFFO) last year.

On November 7th of 2018, Global Net Lease reported Q3 2018 results. Revenue increased 11% to $72 million while AFFO came in at $39.6 million, a 14% increase compared to Q3 2017. The portfolio was 99.5% leased with an 8.6 year weighted average remaining lease term. The company also paid common stock dividends totaling $36.7 million (92.7% of AFFO) during the quarter.

On November 28th, 2018 Global Net Lease announced an offering price of $20.20 per share on its 4,000,000 share public offering, equating to estimated proceeds of approximately $77.6 million and a 5.8% increase in the share count.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
AFFO	NA	NA	NA	NA	NA	NA	NA	$1.96	$2.24	$2.10	***$2.15***	***$2.15***
DPS	NA	NA	NA	NA	NA	NA	NA	$1.40	$2.13	$2.13	***$2.13***	***$2.13***
Shares	NA	NA	NA	NA	NA	NA	NA	58.1	56.7	66.9	***71.0***	***80.0***

Note that Global Net Lease was not publicly listed until 2015, which results in a very short observation history. In addition, the company does not directly report AFFO per share, a measure we find to be more accurate for REIT valuation, but does calculate total AFFO for each year.

From first glance, Global Net Lease appears to be a reasonable REIT with 106 tenants, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar, diversified across seven countries. However, there are a variety of underlying concerns, especially as it relates to potential growth.

General concerns include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an "implied" credit model.

Growth concerns can be more or less boiled down to what you see in the table above. Global Net Lease pays out effectively all of its AFFO in the form of cash dividends. As such, future growth cannot be fueled by internal funds and instead require additional debt or share dilution. Global Net Lease has elected to issue more and more shares, which carry a very high cost given that the current dividend equates to a 10.9% starting yield. There's a hurdle rate problem in that properties must be more attractive than the 10.9% cost of issuing shares. Stated differently, even if the company continues to increase total AFFO, the real test will be whether or not AFFO per share can increase.

In a similar vein, also noteworthy is the company's 1-for-3 reserve stock split completed in February of 2017.

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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/AFFO	NA	NA	NA	NA	NA	NA	NA	12.2	10.5	9.8	***9.1***	***9.1***
Avg. Yld.	NA	NA	NA	NA	NA	NA	NA	5.9%	9.1%	10.3%	***10.9%***	***10.9%***

Given Global Net Lease's limited trading history, it's hard to peg a valuation to the security. Over the past three and a half years shares have traded hands in the $16 to $27 range, implying an AFFO multiple in the 7 to 13 range. We believe the current multiple is more or less fair given the attributes of the security. On the one hand, the 10.9% starting dividend – which is paid in $0.1775 monthly installments – appears very attractive for the income investor. On the other hand, it's this same dividend – taking up basically all of AFFO and creating a high hurdle rate – that will likely stymie improvement in the years ahead. We do not anticipate growth, given the dilutive action that is required to fuel new acquisitions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

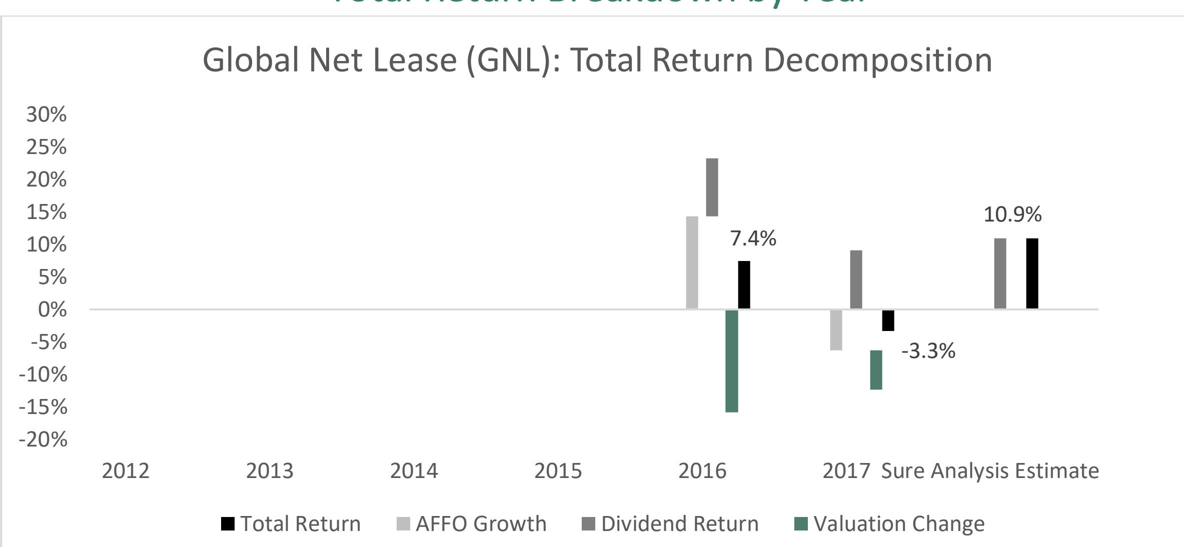
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	NA	NA	NA	NA	NA	NA	NA	71%	95%	101%	***99%***	***99%***

Global Net Lease holds $155 million in cash and $2.9 billion in net real estate against $1.8 billion in total liabilities, which strikes us as a reasonable capital structure. However, one thing we have learned is that in lesser times you don't want to have an elevated payout ratio. Just like you don't want to be forced to sell at the bottom as an individual investor, as a business you don't want to need to raise funds when debt becomes more expensive or your share price has dropped significantly. Global Net Lease is adhering to a near 100% payout ratio and thus has to issue shares in good times, which makes us skeptical of the inevitable lesser times to come.

Final Thoughts & Recommendation

If Global Net Lease can continue paying its $0.1775 quarterly dividend, as it has for the last 42 months, the 10.9% starting yield will be attractive to investors. However, there are a variety of areas where we advocate caution including the past reverse split, management's potential conflict of interest, a limited history, the high payout ratio and consequentially the company's need to keep issuing more shares. Further, the hurdle rate for those new shares is quite high. It will be interesting to see how the company performs in lesser times and what the dilutive action may look like.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	N/A	N/A	93	205	214	259
Gross Profit	N/A	N/A	N/A	N/A	N/A	N/A	85	172	175	206
Gross Margin	N/A	N/A	N/A	N/A	N/A	N/A	90.6%	83.8%	81.9%	79.4%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	N/A	4	10	11	5
D&A Exp.	N/A	N/A	N/A	N/A	N/A	N/A	40	90	94	115
Operating Profit	N/A	N/A	N/A	N/A	N/A	N/A	40	72	70	88
Operating Margin	N/A	N/A	N/A	N/A	N/A	N/A	42.8%	35.3%	32.7%	34.0%
Net Profit	N/A	N/A	N/A	N/A	N/A	N/A	-54	-2	47	24
Net Margin	N/A	N/A	N/A	N/A	N/A	N/A	-57.4%	-1.0%	22.0%	9.1%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	N/A	-19	92	114	128
Income Tax	N/A	N/A	N/A	N/A	N/A	N/A	-1	6	4	3

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	N/A	N/A	2429	2541	2891	3039
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	N/A	65	70	70	102
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	N/A	4	3	14	23
Total Liabilities	N/A	N/A	N/A	N/A	N/A	N/A	1012	1320	1535	1624
Accounts Payable	N/A	N/A	N/A	N/A	N/A	N/A	15	19	23	23
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	N/A	942	1242	1419	1514
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	N/A	1417	1205	1348	1413
D/E Ratio	N/A	N/A	N/A	N/A	N/A	N/A	0.66	1.03	1.05	1.07

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	N/A	N/A	-4.1%	-0.1%	1.7%	0.8%
Return on Equity	N/A	N/A	N/A	N/A	N/A	N/A	-7.0%	-0.2%	3.7%	1.7%
ROIC	N/A	N/A	N/A	N/A	N/A	N/A	-4.2%	-0.1%	1.8%	0.8%
Shares Out.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.1	56.7	66.9
Revenue/Share	N/A	N/A	N/A	N/A	N/A	N/A	1.66	3.53	3.78	3.88
FCF/Share	N/A	N/A	N/A	N/A	N/A	N/A	-0.33	1.58	2.01	1.91

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