Lamar Advertising (LAMR)

Updated February 20th, 2019 by Samuel Smith

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	10.2%	**Volatility Percentile:**	36.4%
Fair Value Price:	$76	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	75.3%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Growth Percentile:**	52.0%
Dividend Yield:	4.7%	**5 Year Price Target**	$100	**Valuation Percentile:**	47.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	62.3%

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 $7.8 billion market capitalization and produces in excess of $1.6 billion in annual revenue.

Lamar reported Q4 earnings on 2/20/19, revealing revenue growth of 7.4%, AFFO up 8.6%, EBITDA up 9.5%, and free cash flow up 12.2%. While a sizable portion of this growth was due to acquisitions, the company still saw 5.6% revenue growth and 6.4% EBITDA growth adjusted for acquisitions. This was in large part thanks to the robust same-unit digital revenue performance, growing 10.8%. The balance sheet also remained in solid shape, with nearly $180 million in liquidity and an extended maturity profile thanks to the company retiring some of its shorter-term debt. All in all, it was a strong finish to a solid year that saw AFFO/share grow 8.9% and exceed management ($5.4 top range estimate) and our own ($5.35) estimates at $5.50.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO	$3.03	$2.94	$3.31	$3.25	$3.62	$4.08	$4.59	$5.00	$5.05	$5.50	***$5.75***	***$7.69***
DPS	--	--	--	--	--	--	$2.50	$2.75	$3.02	$3.56	***$3.68***	***$4.92***
Shares	92	93	93	94	95	96	97	97	98	99	***100***	***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. The company is experiencing strong growth tailwinds after growing AFFO/share by 8.9% in 2018 and is carrying new acquisitions with it into 2019. That being said, management is guiding for a more subdued 4.5% growth in 2019, showing that the strong growth comps in 2018 were significantly helped by acquisitions. Furthermore, we see it taking a bit of time to fully integrate and synergize the new acquisitions. As a result, we are lowering our FFO/share annual growth forecast from 7% to 6% moving forward.

We see revenue growth as the main driver of growth as Lamar grows organically and through acquisition, so a ~5% digit revenue tailwind should drive results. The additional revenue should provide some leverage on the company's largely fixed expense base, improving margins, providing the extra 1% of FFO/share growth. Lamar has significant debt, 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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/FFO	10.3	13.6	8.3	11.9	14.4	13.1	13.1	13.4	14.7	14.2	***13.3***	***13.0***
Avg. Yld.	--	--	--	--	--	--	4.9%	4.8%	4.8%	4.8%	***4.7%***	***4.9%***

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Lamar's price-to-funds-from-operations ratio has moved around a lot in the past decade due to the choppy earnings results. However, it has recently stabilized in the 13x-14x range. We see the current valuation as slightly in excess of fair value, which we've estimated at 13 times FFO-per-share due to the choppiness of earnings and the heavily-leveraged, acquisition-focused business model. At today's multiple of 13.3 times 2019 FFO, that implies a modest 0.5% headwind to total returns in the years to come. With earnings and dividend growth forecast to be roughly the same and the valuation multiple slightly contracting, we see the yield experiencing a slight uptick to 4.9% over the next half decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
Payout	--	--	--	--	--	--	55%	55%	60%	65%	***64%***	***64%***

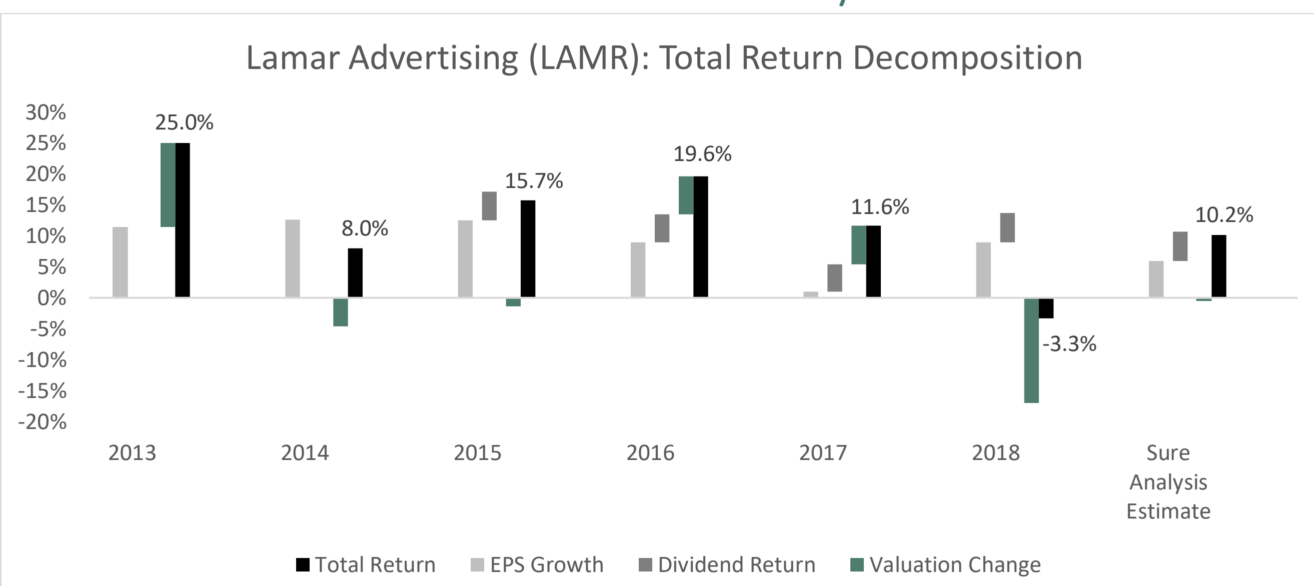
Lamar's quality metrics have been remarkably stable considering the amount of change the company has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have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

Final Thoughts & Recommendation

Given its attractive yield and growth outlook, Lamar has the potential to generate double-digit returns. At the same time, we estimate it is trading roughly in-line with fair value due to the leverage and acquisition risk involved, not to mention its recession vulnerable business model. Returns will come from the 4.7% yield, 6% FFO-per-share growth and a 0.5% headwind from the valuation. For more aggressive investors, LAMR is a buy. For defensive investors, it is a hold.

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.