



STAG Industrial (STAG)

Updated February 15th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	10.8%	Volatility Percentile:	36.1%
Fair Value Price:	\$28	5 Year Growth Estimate:	6.0%	Momentum Percentile:	90.7%
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.3%	Growth Percentile:	51.8%
Dividend Yield:	5.1%	5 Year Price Target	\$37	Valuation Percentile:	46.0%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	61.1%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 390 buildings across 37 states in the United States. STAG Industrial went public in 2011.

The focus of this 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 29.5% of the tenants are rated “investment grade”. The company typically does business with established tenants to reduce risk.

Like most REITs, STAG Industrial is negatively affected by rising interest rates. As interest rates rise, the yields of REITs become less attractive and their valuation is pressured. Rising interest rates also 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 greatly benefits from a strong economy thanks to the nature of its assets.

In mid-February, STAG Industrial reported (2/13/19) financial results for the fourth quarter of fiscal 2018. In the quarter, the REIT grew its core FFO per share by 4.5% over last year, from \$0.44 to \$0.46, thanks to 20% growth in its FFO, which was partly offset by a 15% increase in its share count. During the quarter, the REIT acquired 17 buildings for \$217.9 million whereas it sold 8 buildings for a gain of \$39.9 million. It achieved an occupancy rate of 95.5%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO	----	----	\$1.03	\$1.25	\$1.44	\$1.33	\$1.42	\$1.43	\$1.70	\$1.79	\$1.87	\$2.50
DPS	----	----	\$0.73	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.50
Shares	----	----	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1	130.0	200.0

We expect STAG Industrial to grow its FFO per share from \$1.79 to approximately \$1.87 this year. STAG Industrial has grown its FFO at a 5.9% average annual rate in the last seven years. It still has a market share that is less than 1% of 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 the REIT grows its FFO per share at a 6.0% annual rate, its FFO per share will grow from \$1.87 this year to \$2.50 in 2024.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg P/FFO	----	----	11.1	14.4	14.2	18.4	13.0	16.7	16.4	14.5	15.0	14.8
Avg. Yld.	----	----	6.4%	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	5.1%	4.1%

STAG Industrial is currently trading at a P/FFO ratio of 15.0, which is only slightly higher than its historical average of 14.8. If the stock reverts to its average valuation level over the next five years, it will incur a mild 0.3% annualized drag due to the contraction of its P/FFO ratio.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	----	----	70.9%	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	79.3%	76.5%	60.0%

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 reliable. Thanks to 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 5.1% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years.

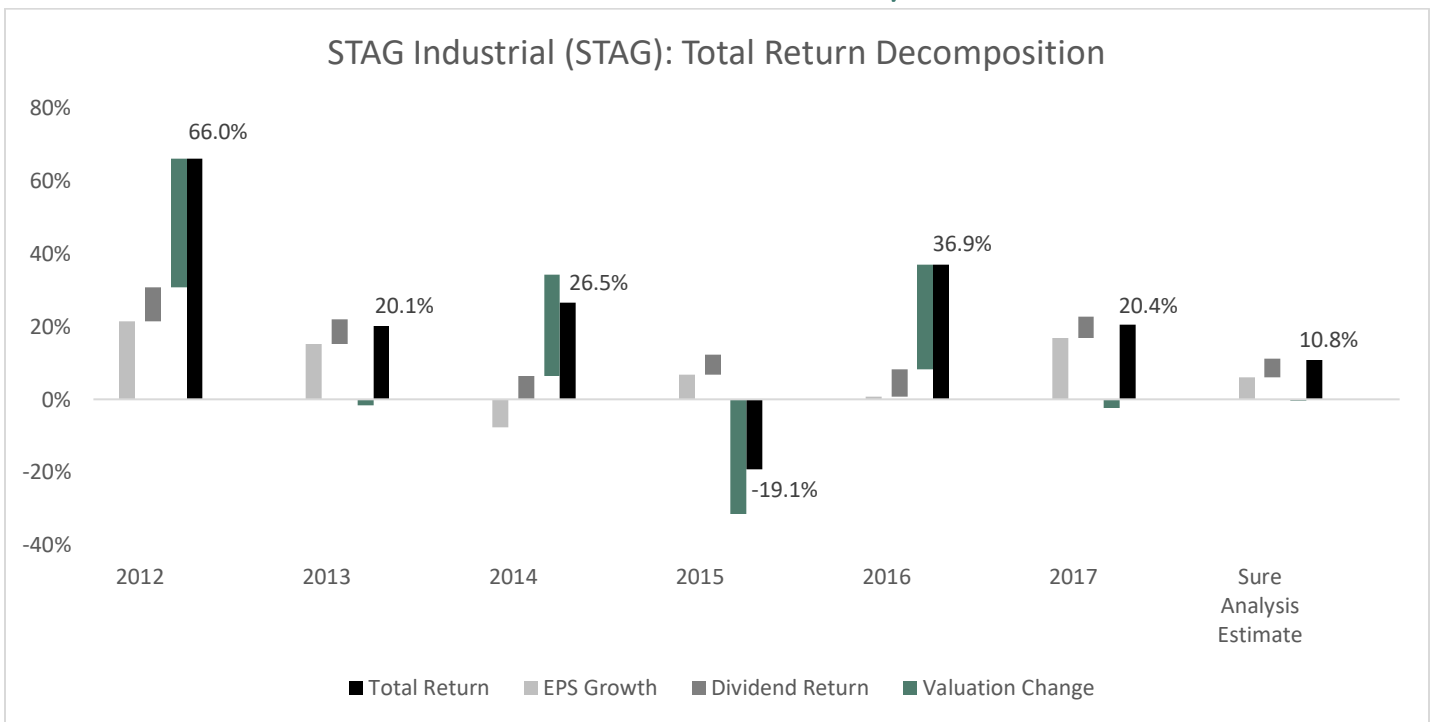
On the other hand, the REIT heavily dilutes its shareholders on a regular basis. Its unit count has almost tripled, from 42 million in 2013 to 115 million now. While the dividend per share has risen only 18% since 2013, the annual amount paid has more than doubled, from \$76 million in 2013 to \$160 million in 2018.

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 a 10.8% average annual return over the next five years. However, it fails to earn a buy rating due to the heavy dilution of its unitholders and its high vulnerability in the event of a recession. We rate it as a hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30	26	44	84	134	174	219	250	301	351
Gross Profit	25	20	39	71	110	140	176	201	243	282
Gross Margin	82.3%	76.4%	87.6%	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%	80.3%
SG&A Exp.	1	1	5	15	18	26	29	33	33	34
D&A Exp.	11	10	21	48	77	94	119	132	155	172
Operating Profit	10	10	10	14	24	26	37	43	59	80
Op. Margin	34.5%	38.6%	23.6%	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%	22.9%
Net Profit	-6	-3	-5	-6	6	-4	-27	35	31	93
Net Margin	-18.4%	-11.4%	-10.3%	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%	26.5%
Free Cash Flow	7	9	15	48	83	97	122	136	162	198

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	220	509	625	1005	1270	1629	1902	2186	2681	3103
Cash & Equivalents	3	1	16	19	7	24	12	12	25	8
Accounts Receivable	4	N/A	6	9	14	17	21	25	34	42
Goodwill & Int. Ass.	N/A	4	5	5	N/A	N/A	N/A	N/A	N/A	N/A
Total Liabilities	222	266	315	516	596	738	1044	1119	1270	1433
Accounts Payable	N/A	4	6	12	19	22	26	35	43	46
Long-Term Debt	212	240	297	479	556	686	980	1036	1174	1326
Shareholder's Equity	-2	156	162	359	464	725	683	882	1214	1539
D/E Ratio	-140	1.54	1.29	1.12	0.92	0.79	1.19	1.01	0.86	0.82

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-2.5%	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%	3.2%
Return on Equity	-221%	-3.8%	-2.9%	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%	6.8%
ROIC	-2.6%	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%	3.3%
Shares Out.	----	----	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1
Revenue/Share	2.15	1.20	2.77	3.36	3.16	3.21	3.30	3.53	3.35	3.38
FCF/Share	0.50	0.43	0.96	1.92	1.95	1.79	1.84	1.92	1.80	1.91

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

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