Global Net Lease (GNL)

Updated February 27th, 2019 by Eli Inkrot

Key Metrics

Current Price:	$18.30	**5 Year CAGR Estimate:**	11.6%	**Volatility Percentile:**	48.3%
Fair Value Price:	$18.30	**5 Year Growth Estimate:**	0.0%	**Momentum Percentile:**	87.6%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	1.3%
Dividend Yield:	11.6%	**5 Year Price Target**	$18.30	**Valuation Percentile:**	55.0%
Dividend Risk Score:	F	**Retirement Suitability Score:**	B	**Total Return Percentile:**	75.6%

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. (56% of locations) and Europe (44% of locations) with an emphasis on sale-leaseback transactions. As of December 31st, 2018 the company owned 342 properties with total square footage of 27.5 million. Office properties accounted for 53% of the company's holdings, with industrial / distribution and retail making up the remaining 39% and 8% respectively. Global Net Lease is a $1.4 billion market cap business which generated $147 million in adjusted funds from operations (AFFO) last year.

On February 27th, 2019 Global Net Lease reported Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter, revenue increased 6.9% to $71.2 million while AFFO came in at $37.1 million, a 5.6% increase compared to Q4 2017. For the year revenue increased 8.8% to $282.2 million, while AFFO totaled $147.3 million ($2.11 per share) against $140.7 million ($2.10) in 2017. The portfolio was 99.2% leased (down from 99.5% in Q3 2018) with an 8.3 year weighted average remaining lease term.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO	---	---	---	---	---	---	$1.96	$2.24	$2.10	$2.11	***$2.15***	***$2.15***
DPS	---	---	---	---	---	---	$1.40	$2.13	$2.13	$2.13	***$2.13***	***$2.13***
Shares	---	---	---	---	---	---	58.1	56.7	66.9	69.7	***75***	***85***

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 111 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 11.2% starting yield. There's a hurdle rate problem in that properties must be more attractive than the 11.2% 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.

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.

Global Net Lease (GNL)

Updated February 27th, 2019 by Eli Inkrot

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/AFFO	---	---	---	---	---	12.2	10.5	9.8	8.4	***8.5***	***8.5***
Avg. Yld.	---	---	---	---	---	5.9%	9.1%	10.3%	12.1%	***11.6%***	***11.6%***

Given Global Net Lease's limited trading history, it's hard to peg a valuation to the security. Over the past four 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 11.6% 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

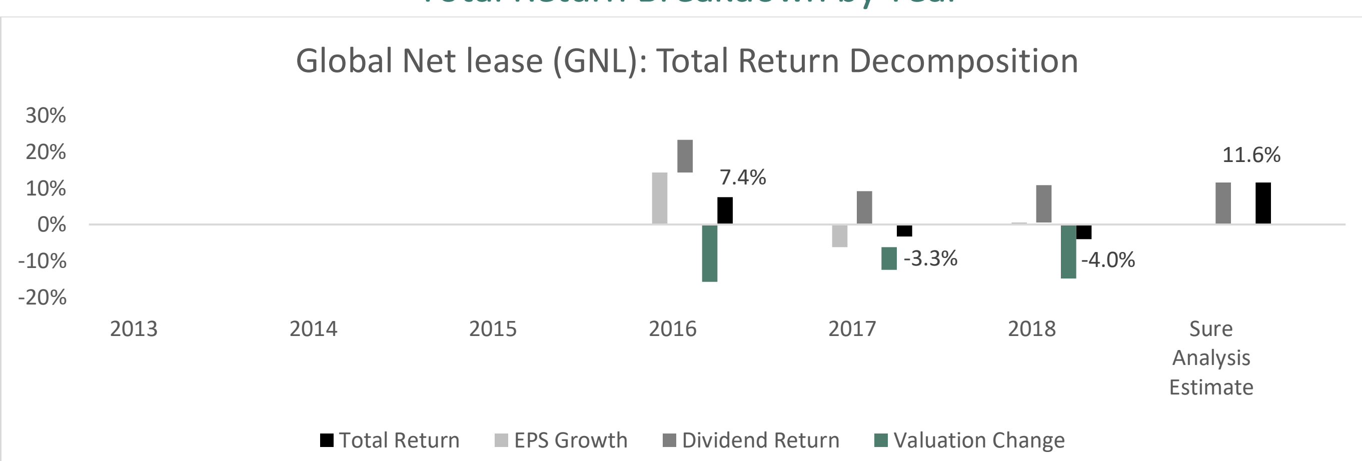
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	71%	95%	101%	101%	***99%***	***99%***

Global Net Lease holds $100 million in cash and $3.0 billion in net real estate against $1.9 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

Since our last update shares are down about 8% while results came in more or less as expected. The 11.6% starting yield is 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. This is a high-risk security with an elevated chance of a dividend cut during a recession. Its high expected returns mean it's not a sell, but we hesitate to recommend buying or even holding this high risk security.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Global Net Lease (GNL)

Updated February 27th, 2019 by Eli Inkrot

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	N/A	93	205	214	259	282
Gross Profit	N/A	N/A	N/A	N/A	N/A	85	187	195	230	253
Gross Margin	N/A	N/A	N/A	N/A	N/A	91.5%	91.1%	91.1%	88.9%	89.8%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	5	43	31	29	41
D&A Exp.	N/A	N/A	N/A	N/A	N/A	40	90	94	115	N/A
Operating Profit	N/A	N/A	N/A	N/A	N/A	40	54	70	88	93
Operating Margin	N/A	N/A	N/A	N/A	N/A	42.8%	26.2%	32.7%	34.0%	32.8%
Net Profit	N/A	N/A	N/A	N/A	N/A	-54	-2	47	24	11
Net Margin	N/A	N/A	N/A	N/A	N/A	-57.4%	-1.0%	22.0%	9.1%	3.9%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	-19	92	114	128	N/A
Income Tax	N/A	N/A	N/A	N/A	N/A	-1	6	4	3	2

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	N/A	2429	2541	2891	3039	3309
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	65	70	70	102	100
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	4	3	14	23	22
Total Liabilities	N/A	N/A	N/A	N/A	N/A	1012	1320	1535	1624	1881
Accounts Payable	N/A	N/A	N/A	N/A	N/A	15	19	23	23	32
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	942	1242	1419	1514	1772
Shareholder's Equity	N/A	N/A	N/A	N/A	N/A	1417	1205	1348	1413	1425
D/E Ratio	N/A	N/A	N/A	N/A	N/A	0.66	1.03	1.05	1.07	1.24

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	N/A	-4.1%	-0.1%	1.7%	0.8%	0.3%
Return on Equity	N/A	N/A	N/A	N/A	N/A	-7.0%	-0.2%	3.7%	1.7%	0.8%
ROIC	N/A	N/A	N/A	N/A	N/A	-4.2%	-0.1%	1.8%	0.8%	0.4%
Shares Out.	N/A	N/A	N/A	N/A	N/A	N/A	58.1	56.7	66.9	69.7
Revenue/Share	N/A	N/A	N/A	N/A	N/A	1.66	3.53	3.78	3.88	4.05
FCF/Share	N/A	N/A	N/A	N/A	N/A	-0.33	1.58	2.01	1.91	N/A

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