Global Net Lease (GNL)

Updated May 28th, 2019 by Samuel Smith

Key Metrics

Current Price:	$19	**5 Year CAGR Estimate:**	10.9%	**Volatility Percentile:**	49.2%
Fair Value Price:	$18	**5 Year Growth Estimate:**	0.0%	**Momentum Percentile:**	48.5%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Growth Percentile:**	1.4%
Dividend Yield:	11.3%	**5 Year Price Target**	$18	**Valuation Percentile:**	46.8%
Dividend Risk Score:	F	**Retirement Suitability Score:**	B	**Total Return Percentile:**	62.4%

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 March 31st, 2019 the company owned 343 properties with total square footage of 27.4 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 $1.6 billion market capitalization business.

On May 9th, 2019 Global Net Lease reported Q1 results for the period ending March 31st, 2019. For the quarter, revenue increased 11% year-over-year to $75.9 million while AFFO came in at $0.48 per share, a 7.7% decline compared to Q1 2018. However, the decline in AFFO per share was due to the company's substantial equity raise during the quarter, which brought in proceeds of $154.5 million. Some of this was used to fund the current acquisition pipeline, which was also active during the quarter ($185.3 million of closed and pipeline acquisitions for a going-in cap rate of 7.52% and a weighted average cap rate of 8.17%). The portfolio was 99.5% leased (up from 99.2% in Q4 2018) with an 8.1-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.

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 11.3% starting yield. There's a hurdle rate problem in that properties must be more attractive than the 11.3% 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. As a result, we expect no AFFO per share growth over the next half decade.

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

Global Net Lease (GNL)

Updated May 28th, 2019 by Samuel Smith

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	***8.7***	***8.5***
Avg. Yld.	---	---	---	---	---	5.9%	9.1%	10.3%	12.1%	***11.3%***	***11.7%***

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 and expect a slight 0.4% annual headwind from multiple contraction over the next five years. On the one hand, the 11.3% 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.

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%***

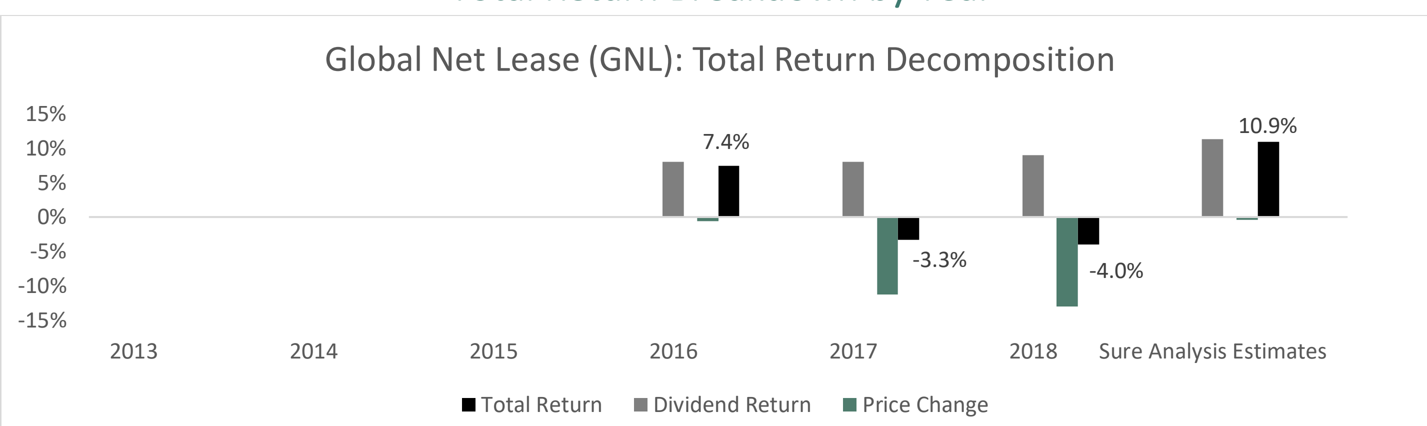
The balance sheet is reasonably liquid and flexible given the 4.3x interest coverage ratio, 3.0% weighted-average interest rate, 4.2 year weighted average debt maturity date and high percentage (83.7%) of fixed-rate debt. However, its elevated payout ratio puts it at risk of a dividend cut if the business stumbles at all, and its reliance on equity issuances for acquisitions make it extremely challenging to grow.

As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio could prove problematic during the next recession by forcing a dividend cut.

Final Thoughts & Recommendation

The 11.3% starting yield is attractive to investors and, adjusting for an expected -0.4% annual multiple contraction, could lead to 10.9% total annual returns over the next half decade. 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 the company's need to keep issuing more shares. Further, the hurdle rate for those new shares is quite high. 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, however, this stock is very high-risk, so we rate it a hold for only the boldest investors.

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 May 28th, 2019 by Samuel Smith

Income Statement Metrics

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

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	---	---	---	---	---	2429	2541	2891	3039	3309
Cash & Equivalents	---	---	---	---	---	65	70	70	102	100
Goodwill & Int. Ass.	---	---	---	---	---	4	3	14	23	22
Total Liabilities	---	---	---	---	---	1012	1320	1535	1624	1881
Accounts Payable	---	---	---	---	---	15	19	23	23	32
Long-Term Debt	---	---	---	---	---	942	1242	1419	1514	1772
Shareholder's Equity	---	---	---	---	---	1417	1205	1348	1413	1425
D/E Ratio	---	---	---	---	---	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	---	---	---	---	---	-4.1%	-0.1%	1.7%	0.8%	0.3%
Return on Equity	---	---	---	---	---	-7.0%	-0.2%	3.7%	1.7%	0.8%
ROIC	---	---	---	---	---	-4.2%	-0.1%	1.8%	0.8%	0.4%
Shares Out.	---	---	---	---	---	---	58.1	56.7	66.9	69.7
Revenue/Share	---	---	---	---	---	1.66	3.53	3.78	3.88	4.05
FCF/Share	---	---	---	---	---	-0.33	1.58	2.01	1.91	---

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