



STORE Capital Corp. (STOR)

Updated May 28th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	41.8%
Fair Value Price:	\$33	5 Year Growth Estimate:	5.0%	Momentum Percentile:	93.0%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.9%	Growth Percentile:	36.2%
Dividend Yield:	3.8%	5 Year Price Target	\$42	Valuation Percentile:	42.9%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	38.0%

Overview & Current Events

Founded in 2011 and public since 2014, STORE Capital Corp is a real estate investment trust involved in the acquisition and management of single tenant operation real estate, or STORE, properties across the U.S. STORE Capital primarily leases facilities at which a company operates its business and generates sales to middle-market and large businesses through long-term agreements. Most of STORE's revenue comes from its service sector customers, which include, notably, restaurants, movie theaters, health clubs, early childhood education centers, and furniture stores. A sizable percentage of STORE's total real estate portfolio is comprised of restaurant and industrial locations. Specifically, properties in Texas, Illinois, and Georgia make up a large amount of STORE's investments as well. It currently trades at a market cap of \$7.9 billion.

STORE Capital reported its Q1 results on May 2nd, generating adjusted FFO per share of \$0.48, beating consensus estimates by \$0.02 and growing by 9.1% year-over-year. Meanwhile, scale also continued to grow rapidly, as revenue was up 24.5% year-over-year. The strong results, including a healthy pace of net property acquisition volume on track for \$1.1 billion this year, prompted management to reaffirm 2019 AFFO guidance of \$1.90-\$1.96. The company set itself up for future growth by acquiring nearly \$400 million worth of properties during the quarter at a weighted average cap rate of 7.8%, well above its cost of capital.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO/S	---	---	---	---	---	\$1.41	\$1.50	\$1.65	\$1.71	\$1.84	\$1.93	\$2.46
DPS	---	---	---	---	---	\$0.11	\$1.04	\$1.12	\$1.20	\$1.28	\$1.34	\$1.71
Shares	---	---	---	---	---	78	122	149	179	205	220	270

STORE Capital's AFFO/share growth has been strong since coming public as it has gone from \$1.41 in 2014 to \$1.84 in 2018 (~7% growth per year). Looking ahead, the company expects its aggressive acquisition pipeline (fishing in a \$3 trillion pool of assets) to combine with its defensive net-leases to drive solid mid-single digit growth. We don't expect the company to continue its 2018 pace of acquisition-fueled growth, which produced 10% FFO per share growth due to gradually compressing cap rates and the law of large numbers. However, we do believe that the company's strategy of focusing on profit center real estate that is leased on a long-term basis to a highly diversified group of middle market and larger companies across the United States, with strong rent escalators and senior lease positioning should continue to generate attractive returns. Further fueling this growth is the fact that STORE's equity trades at a premium to NAV, enabling them to accretively issue shares and then invest the proceeds into new properties. As a result, we expect STOR to achieve annual growth of ~5% over the next half decade and the dividend to keep pace with that level of growth.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/AFFO	---	---	---	---	---	15.4	15.4	15.0	15.3	15.3	17.8	17.0
Avg. Yld.	---	---	---	---	---	0.5%	4.5%	6.8%	4.6%	4.6%	3.8%	4.1%

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STORE Capital does not look particularly cheap right now as evidenced by its dividend yield and P/AFFO relative to their historical levels. While the company's safety has increased with its growing scale, diversification, and strength of balance sheet, the company's growth prospects have slowed a little bit due to the law of large numbers and declining cap rates. As a result, we believe that shares deserve a P/AFFO multiple of 17x. Therefore, we believe that shares are slightly overvalued at present and the value multiple will experience a -0.9% compression annually moving forward for the next five years as the market comes to realize that its growth optimism has become slightly overblown.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Payout	---	---	---	---	---	7.8%	69.3%	67.9%	70.1%	69.6%	69.4%	69.5%

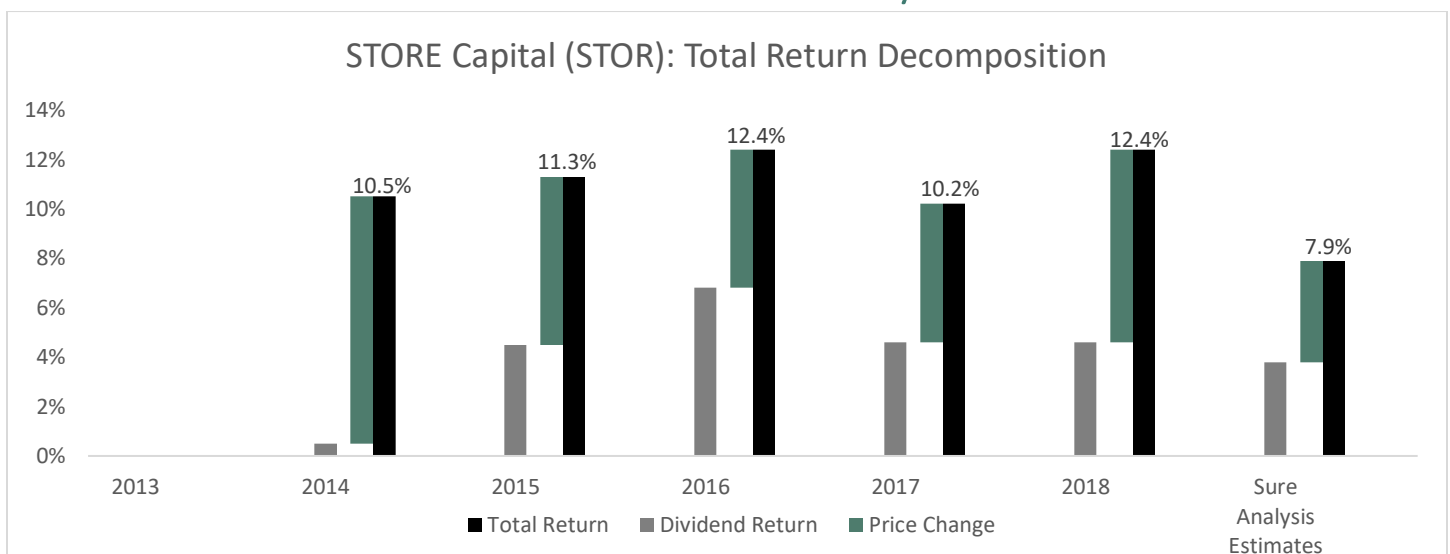
As a net lease REIT, STORE Capital is a defensive stock because its leases have a senior position to other obligations, are long-term, and have regular rent escalators built in. Additionally, the nature of triple net leases is such that the tenant takes care of virtually all of the operating costs, making them carry very little operating risk for the landlord. Another factor contributing to STORE's safety is the fact that it has achieved tremendous diversification with over 400 customers; more tenants and a more diverse investment portfolio than any other net lease REIT. On October 22, STORE announced that they had become among the very few REITs (and the only net lease REIT) to have the ability to issue AAA-rated notes, which, in itself, is an affirmation of the safety of the diverse portfolio they have assembled.

Though it was founded after the financial crisis had already passed, the strong performance of other triple net lease REITs during that time period bodes well for them should a similar event occur in the future. The balance sheet is also in great shape as they have a stable outlook, a BBB credit rating, and 7.5x debt service coverage

Final Thoughts & Recommendation

STORE Capital has an impressive track record and shows no sign of changing its growth trend. However, compressing cap rates and the law of large numbers are likely to begin catching up to it over the next half decade, which we expect will slow its AFFO/share growth to ~5% annually during that time period and cause its multiple to contract slightly (-0.9% per year). Combined with its current 3.8% dividend, STORE is likely to produce 7.9% annualized returns moving forward, making it a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	N/A	109	190	285	376	453	541
SG&A Exp.	N/A	N/A	N/A	N/A	14	19	28	35	41	46
D&A Exp.	N/A	N/A	N/A	N/A	31	57	89	120	150	182
Operating Profit	N/A	N/A	N/A	N/A	64	113	167	218	257	309
Operating Margin	N/A	N/A	N/A	N/A	59.0%	59.6%	58.5%	57.9%	56.7%	57.1%
Net Profit	N/A	N/A	N/A	N/A	26	48	84	123	162	217
Net Margin	N/A	N/A	N/A	N/A	24.2%	25.3%	29.4%	32.8%	35.8%	40.1%
Free Cash Flow	N/A	N/A	N/A	N/A	55	103	187	246	309	392
Income Tax	N/A	N/A	N/A	N/A	0	0	0	0	0	1

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	N/A	1786	2883	3911	4942	5900	7114
Cash & Equivalents	N/A	N/A	N/A	N/A	62	136	67	54	43	28
Total Liabilities	N/A	N/A	N/A	N/A	1012	1300	1852	2458	2729	3250
Long-Term Debt	N/A	N/A	N/A	N/A	992	1253	1770	2352	2597	3060
Shareholder's Equity	N/A	N/A	N/A	N/A	774	1583	2060	2483	3171	3864
D/E Ratio	N/A	N/A	N/A	N/A	1.28	0.79	0.86	0.95	0.82	0.79

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	1.9%	2.1%	2.5%	2.8%	3.0%	3.3%
Return on Equity	N/A	N/A	N/A	N/A	4.1%	4.1%	4.6%	5.4%	5.7%	6.2%
ROIC	N/A	N/A	N/A	N/A	1.9%	2.1%	2.5%	2.8%	3.1%	3.4%
Shares Out.	N/A	N/A	N/A	N/A	N/A	78	122	149	179	205
Revenue/Share	N/A	N/A	N/A	N/A	0.98	2.43	2.33	2.52	2.53	2.64
FCF/Share	N/A	N/A	N/A	N/A	0.50	1.31	1.53	1.65	1.73	1.91

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

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