



Granite Real Estate Investment Trust (GRP-UN)

Updated July 10th, 2019 by Noah Horwood

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	5.6%	Volatility Percentile:	5.9%
Fair Value Price:	\$41	5 Year Growth Estimate:	4.0%	Momentum Percentile:	69.2%
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Growth Percentile:	24.2%
Dividend Yield:	4.6%	5 Year Price Target	\$66	Valuation Percentile:	36.1%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	32.9%

Overview & Current Events

Granite REIT is a Canadian based global real estate operating Trust. In 2003, Granite REIT spun off from an automotive component manufacturer formally known as MI Developments. The company is predominantly engaged in the acquisition, development, construction, leasing, management and ownership of a mainly industrial rental portfolio of properties in North America and Europe. Granite owns 86 properties, which makes up 33.6 million square feet of gross leasable area across nine countries. The countries which Granite owns properties in are: 30 properties in the United States, 26 in Canada, 11 in Austria, 11 in Germany, 3 in Netherlands, 2 in Poland and 1 property each in Czech Republic, England, and Spain. The company has three different types of properties which make up their portfolio: special purpose, multi-purpose, and modern logistics/distribution warehouses. More than a 50% of the company's revenue comes from their special purpose properties, 37% of their revenue is attributed to their multi-purpose properties and the remaining 13% of their rental income comes from modern logistics/distribution warehouses. The company's largest tenant is Magna International (MGA). Magna and their subsidiaries accounts for 54% of their annualized revenue. This \$2.3 billion market capitalization company is listed on the New York Stock Exchange under the ticker GRP-UN.

On April 24th, 2019 Granite REIT released Q1 results for the period ending March 31st, 2019 and full year results for period ending December 31st, 2019 were reported on March 6th, 2019. Funds from operations per share (FFO/S) for the quarter totaled \$40.7 million (\$0.89 per share) against \$51.3 million (\$1.11 per share) in Q1 of 2018. For the year FFO/S totaled \$169 million (\$3.68) against \$153 million (\$3.25) in 2017.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	N/A	N/A	N/A	N/A	\$2.95	\$2.66	\$3.37	\$3.18	\$3.25	\$3.68	\$3.86	\$4.70
DPS	N/A	N/A	N/A	N/A	\$2.11	\$2.21	\$2.30	\$2.43	\$2.61	\$2.58	\$2.71	\$3.29
Shares	N/A	N/A	N/A	N/A	46.9	47.0	47.0	47.1	46.9	45.7	45.5	44.5

Instead of using the typical EPS as Granite's main growth metric, we used funds from operations per share (FFO/S). We used FFO/S, because it more accurately represents how a REIT company is growing. Granite has only six reportable years of operations. Since 2013, the company has grown their FFO/S by almost 25% in total or 5% per year on average. We are assuming that this trend of growing at a rate of 5% will continue for our estimates, which drives a 2024 FFO/S target of \$4.70 and a 5-year price target of \$66.27. To achieve this growth rate the company will need to continue to grow by acquiring new assets, reduce their concentration in Magna and grow their scale in target markets.

Granite's dividend has been growing every year since 2013. The company has increased their dividend by an average of 2.8% annually in that time. We expect that their dividend will continue to grow with growth of the company going forward that would drive a 2024 DPS estimate of \$3.29 and a 5.0% annual yield.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	N/A	N/A	N/A	N/A	13.1	15.5	11.3	14.1	15.9	14.5	16.4	14.1
Avg. Yld.	N/A	N/A	N/A	N/A	5.6%	5.6%	6.1%	5.7%	5.5%	5.3%	4.6%	5.0%

Granite's average price to funds from operations ratio (P/FFO) has deviated around their historic average of 14.1. Comparing the REIT's current P/FFO ratios to its historic average shows Granite is somewhat overvalued at current prices. We expect valuation multiple compression to reduce total returns by 3.0 percentage points annually over the next 5 years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	N/A	N/A	N/A	N/A	72%	83%	68%	76%	80%	70%	70%	70%

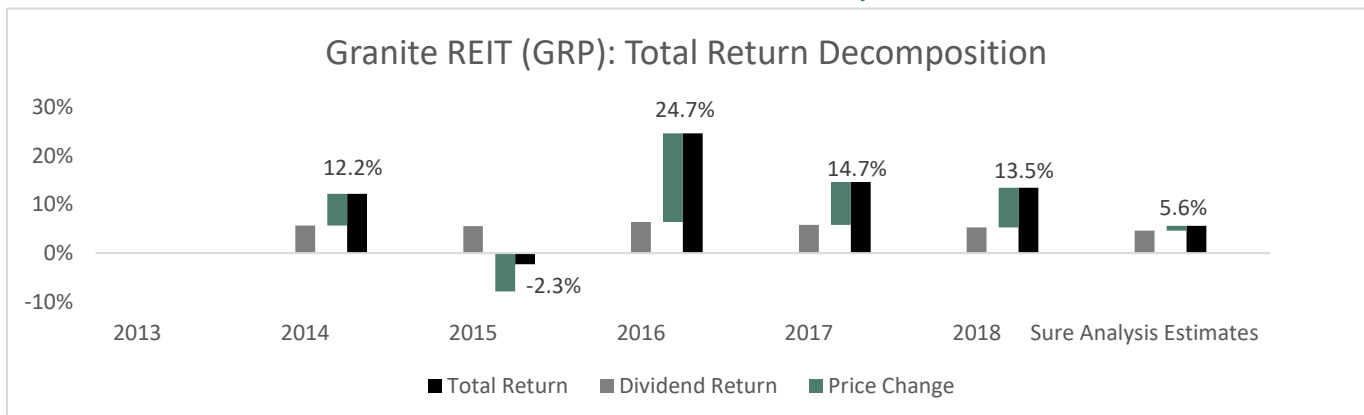
Granite currently has very high exposure to their largest tenant, Magna, which makes up 54% of their annualized revenue (71% in 2017) and 47% of their gross leasable area (61% in 2017). With that said, these figures are significantly lower than in 2014 when 83% of Granite's revenue was coming from Magna. In Granite's new strategic outlook, put into place November of 2018, the company has a goal to decrease their Magna concentration to below 50% of total revenue which the company is approaching now. Granite is currently working to decrease their position in Magna by selling properties which Magna is leased in and acquiring new properties with the acquired funds. At year-end in 2018 Granite has another property up for sale that will further help to lower their exposure to Magna.

Granite has not been around for a recessionary period, but we can assume that a recession would be a risk. During a recession it would be difficult for the company to dispose of certain types of real estate if needed and the costs of holding their investments would be more expensive. Another way which Granite would be adversely affected by a recession is their cash inflows could decline from a declining prospect of incoming receipts.

Final Thoughts & Recommendation

Overall, we expect total returns of 5.6% annually, mainly driven by their 4.6% annual yield on dividends, followed by a 4% improvement coming from growth and a reduction in total returns of 3.0% coming from our valuation estimate. Granite suffers from two primary risks. First, the serious concentration of revenue from one tenant is troubling. Second, this REIT is unproven during a recession. Due to mediocre expected total returns combined with higher than average risk, we rate Granite REIT as a sell at current prices.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue					184	188	169	169	189	191
Gross Profit					179	182	164	163	165	167
Gross Margin					97.1%	96.7%	96.7%	96.6%	87.2%	87.5%
SG&A Exp.					24	25	22	21	20	23
D&A Exp.					0	1	1	1	0	0
Operating Profit					155	156	141	141	140	144
Operating Margin					83.9%	82.9%	83.3%	83.7%	74.0%	75.5%
Net Profit					141	64	151	211	276	359
Net Margin					76.4%	33.9%	89.4%	125%	146%	188%
Free Cash Flow					96	44	104	106	-61	-327
Income Tax					-32	8	28	36	10	41

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets					2318	2109	1969	2160	2550	3075
Cash & Equivalents					90	100	86	183	55	483
Accounts Receivable					2	2	3	1	2	3
Total Liabilities					744	699	629	713	850	1242
Accounts Payable					5	4	3	4	5	4
Long-Term Debt					523	496	406	480	541	880
Shareholder's Equity					1570	1404	1332	1445	1699	1832
D/E Ratio					0.33	0.35	0.31	0.33	0.32	0.48

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets					6.5%	2.9%	7.4%	10.2%	11.7%	12.8%
Return on Equity					9.1%	4.3%	11.1%	15.2%	17.6%	20.3%
ROIC					7.2%	3.2%	8.3%	11.5%	13.2%	14.5%
Shares Out.					46.95	47.07	47.10	47.12	46.90	45.69
Revenue/Share					3.93	3.99	3.60	3.58	4.03	4.18
FCF/Share					46.9	47.0	47.0	47.1	46.9	45.7

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

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