



Gladstone Land Corporation (LAND)

Updated July 16th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$12	5 Year CAGR Estimate:	1.6%	Volatility Percentile:	44.3%
Fair Value Price:	\$9	5 Year Growth Estimate:	3.0%	Momentum Percentile:	41.4%
% Fair Value:	136%	5 Year Valuation Multiple Estimate:	-5.9%	Growth Percentile:	13.3%
Dividend Yield:	4.5%	5 Year Price Target	\$10	Valuation Percentile:	20.6%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	14.0%

Overview & Current Events

Gladstone Land Corporation is a real estate investment trust, or REIT, that specializes in the owning and operating of farmland in the US. The trust owned 86 farms as of the end of the first quarter of 2019, comprising 73,900 acres of farmable land. Gladstone's business is made up of three different options available to farmers, all of which are done on a triple-net basis. The trust offers long-term sale leaseback transactions, traditional leases of farmland, and outright purchases of farm properties. Gladstone's portfolio has an appraised value of nearly \$600 million, and the stock trades with a market capitalization of \$217 million. The trust went public in early 2013.

Gladstone reported Q1 earnings on 5/17/19, and results were largely as expected. Total operating revenue fell 2.5% against the prior quarter, while expenses rose 1.8%. These factors combined to crimp margins in Q1, but adjusted-funds-from-operations came in flat at 13.3 cents per share in Q1.

The trust didn't have capital to invest in acquisitions in Q1 as its most recent round of funding – a new preferred stock issue – didn't have proceeds available in time for Q1 investment. However, the trust stated that subsequent to the end of Q1, it purchased a large pistachio orchard in California, as well as a blueberry farm in Michigan, an olive orchard in California, and coastal farmland in California. The trust's large number of acquisitions in Q2 should be accretive to AFFO in the coming quarters, but we see this dip in activity in Q1 and Q2, as well as increased funding costs, as cause for a slight reduction in AFFO-per-share this year.

The trust is fully-occupied now, boasting an enviable 100% occupancy rate. However, the factors discussed above cause our initial estimate of AFFO-per-share for this year to drop slightly to 48 cents. Gladstone also recently issued 2 million new shares, meaning the hurdle for per-share growth is even higher than it was, particularly as the trust looks for ways to invest the proceeds. As a result, we are somewhat cautious despite the slate of acquisitions.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO	---	---	---	\$0.57	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.48	\$0.56
DPS	---	---	---	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.55
Shares	---	---	---	2.8	6.2	6.9	8.6	10.8	13.4	16.3	20.0	30.0

Gladstone's growth has been irregular since it went public in 2013, although that growth has settled down a bit recently. From 2016 to 2018, Gladstone produced just over \$0.50 in AFFO-per-share annually, which is where we see long-term earnings potential. Due to the compressed margins the trust will see this year as a result of higher-than-normal funding costs, we think Gladstone can grow at 3% annually over the long-term. We note that this modest level of growth is based upon the fact that we expect this year's AFFO-per-share to be lower than it otherwise would be; Gladstone's outright growth rate is likely to be in the low single digits at best moving forward from this low base.

Growth in the trust's portfolio will drive higher rental revenues, but Gladstone continues to suffer from very high funding costs. It issues preferred stock with coupons in the mid- to high single digits, and issues common stock that has not only an implied cost of a higher share count, but also a dividend yield of 4.5%. With capitalization rates in the mid-single digits, it is very difficult for Gladstone to issue such expensive capital and then profitably invest it in new

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properties. Given this, Gladstone has to tightly control operating expenses to move the needle on a per-share basis, which it has struggled to accomplish. We see this as continuing for the foreseeable future unless it finds a cheaper way to fund acquisitions. We view this as unlikely.

The dividend was raised by 0.1% most recently as Gladstone appears to have hit the maximum dividend it can pay until AFFO-per-share increases. We see token increases coming in the next few years as the trust will likely be more focused on trying to increase profitability than the distribution.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/AFFO	---	---	---	---	100.7	49.3	25.8	18.9	22.0	24.8	24.4	18.0
Avg. Yld.	---	---	---	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.5%	5.5%

Gladstone's price-to-AFFO has been very high in recent years and sits at 24.4 today. We see fair value, given its low projected growth and maxed out dividend, at 18 times AFFO. That implies a nearly 6% annual headwind to total returns should the stock revert to this valuation.

The yield is 4.5% today and we see it rising to 5.5% over time as the essentially flat dividend is made more valuable but a falling share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

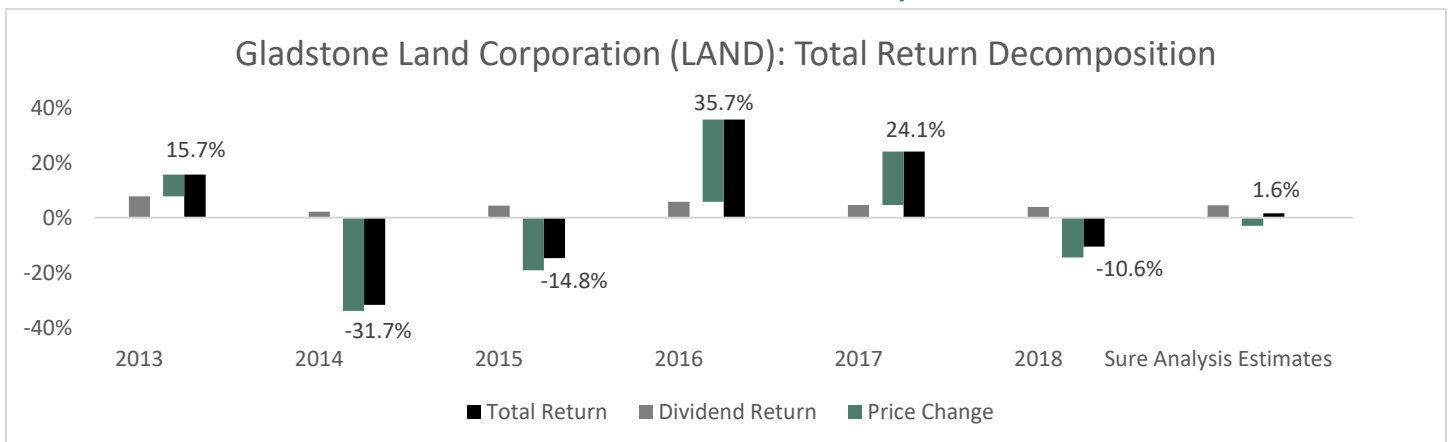
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	144%	118%	93%	93%	104%	110%	99%

Gladstone offers farmers a diverse portfolio of high-quality properties, but it doesn't necessarily have a competitive advantage. Recessions may hurt the trust's earnings as well as farmers that operate on low margins may struggle if a downturn occurs. Weather is another risk factor for Gladstone and its farmers as well as crop destruction can occur for a variety of reasons. The dividend is also stretched at this point as it is just over 100% of AFFO-per-share.

Final Thoughts & Recommendation

While we like the steady nature of Gladstone's rental income, the stock is far too expensive, and growth too low, to consider a buy recommendation. We see total annual returns of just 1.6%, consisting of the 4.5% dividend yield, 3% growth, and a 5.9% headwind from the valuation declining. Given the high price compared to fair value and Gladstone's very expensive capital issues, we rate the stock a sell, and note there are far better REIT options available.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue				3	4	7	12	17	25	37
Gross Profit				3	4	7	11	17	24	35
Gross Margin				96.5%	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%
SG&A Exp.				1	2	3	3	4	5	5
D&A Exp.				0	1	2	3	5	7	9
Operating Profit				2	2	2	5	8	11	12
Operating Margin				60.6%	37.4%	29.5%	39.6%	44.2%	45.3%	33.0%
Net Profit				1	-1	0	1	0	0	3
Net Margin				17.7%	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%
Free Cash Flow				-6	-39	-68	-73	-86	1	-12
Income Tax				0	2	0				

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets				41	94	152	229	334	462	565
Cash & Equivalents				1	16	3	3	2	3	15
Inventories									2	0
Goodwill & Int. Ass.				0	0	1	2	2	5	6
Total Liabilities				33	45	92	151	246	344	384
Accounts Payable				1	1	2	3	3	7	9
Long-Term Debt				31	43	86	142	207	301	336
Shareholder's Equity				8	49	60	78	77	110	176
D/E Ratio				3.79	0.89	1.44	1.82	2.70	2.74	1.91

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets				1.6%	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%
Return on Equity				7.7%	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%
ROIC				1.7%	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%
Shares Out.				2.8	6.2	6.9	8.6	10.8	13.4	16.3
Revenue/Share				1.23	0.65	1.05	1.38	1.73	2.08	2.37
FCF/Share				-2.31	-6.30	-9.88	-8.44	-8.59	0.11	-0.79

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

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