



# Gladstone Land Corporation (LAND)

Updated November 16<sup>th</sup>, 2019 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$12	<b>5 Year CAGR Estimate:</b>	1.8%	<b>Volatility Percentile:</b>	42.8%
<b>Fair Value Price:</b>	\$9	<b>5 Year Growth Estimate:</b>	3.0%	<b>Momentum Percentile:</b>	24.0%
<b>% Fair Value:</b>	134%	<b>5 Year Valuation Multiple Estimate:</b>	-5.7%	<b>Growth Percentile:</b>	17.5%
<b>Dividend Yield:</b>	4.5%	<b>5 Year Price Target</b>	\$10	<b>Valuation Percentile:</b>	20.2%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<b>Total Return Percentile:</b>	14.3%

## 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 owns about 90 farms, comprising nearly 80,000 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 about \$600 million, and the stock trades with a market capitalization of \$253 million. The trust went public in early 2013.

Gladstone reported Q3 results on November 6<sup>th</sup> and beat expectations on revenue and earnings. The trust reported the acquisition of seven new farms, consisting of 5,700 acres, for a total consideration of \$153 million. The weighted average cap rate was 6.3% for these farms, but Gladstone said the new leases had provisions for cash rent escalations. Gladstone also announced new long-term borrowings of \$101.8 million at a weighted average effective interest rate of 3.64%. The trust also issued more common stock as the share count rose nearly 13% year-over-year to 21 million shares.

Adjusted funds-from-operations, or AFFO, came to \$3 million, up 28.6% year-over-year, while AFFO was up from 12 cents to 14 cents on a per-share basis. The increase was driven by higher lease revenues, but that was partially offset by higher operating expenses. Net asset value declined \$0.12 to \$11.49 per share.

Finally, the trust put in a fractional increase in its monthly distribution to \$0.0446 per share.

We saw Q3 results as slightly better than expectations, and we've boosted our estimate of AFFO-per-share estimate by two cents to \$0.50 for this year.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>AFFO</b>	---	---	---	\$0.57	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	<b>\$0.50</b>	<b>\$0.58</b>
<b>DPS</b>	---	---	---	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	<b>\$0.54</b>	<b>\$0.57</b>
<b>Shares<sup>1</sup></b>	---	---	---	2.8	6.2	6.9	8.6	10.8	13.4	16.3	<b>21.0</b>	<b>30.0</b>

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

<sup>1</sup> Share count in millions

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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 given recent financing activity.

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	24.2	18.0
Avg. Yld.	---	---	---	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.5%	5.4%

Gladstone's price-to-AFFO has been very high in recent years and sits at 24.8 today. We see fair value, given its low projected growth and maxed out dividend, at 18 times AFFO. That implies a ~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 by a falling share price.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

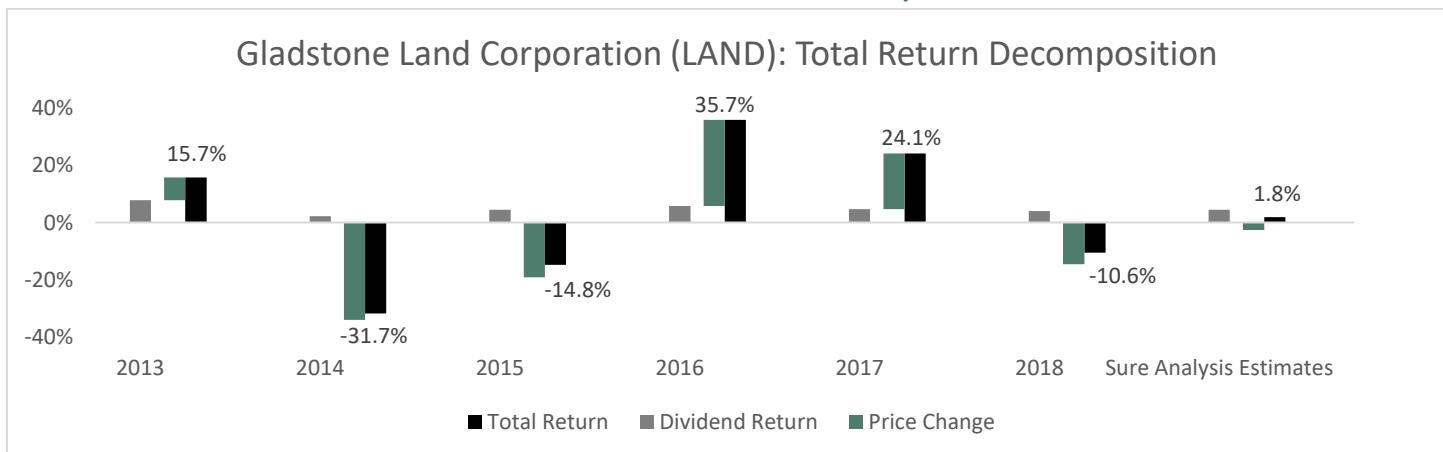
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	144%	118%	93%	93%	104%	108%	98%

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 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 1.8%, consisting of the 4.5% dividend yield, modest growth, and a sizable headwind from the valuation declining. Given the high price compared to our estimate of fair value and Gladstone's very expensive capital issues, we rate the stock a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Total Assets</b>				41	94	152	229	334	462	565
<b>Cash &amp; Equivalents</b>				1	16	3	3	2	3	15
<b>Inventories</b>									2	0
<b>Goodwill &amp; Int. Ass.</b>				0	0	1	2	2	5	6
<b>Total Liabilities</b>				33	45	92	151	246	344	384
<b>Accounts Payable</b>				1	1	2	3	3	7	9
<b>Long-Term Debt</b>				31	43	86	142	207	301	336
<b>Shareholder's Equity</b>				8	49	60	78	77	110	176
<b>D/E Ratio</b>				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
<b>Return on Assets</b>				1.6%	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%
<b>Return on Equity</b>				7.7%	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%
<b>ROIC</b>				1.7%	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%
<b>Shares Out.</b>				2.8	6.2	6.9	8.6	10.8	13.4	16.3
<b>Revenue/Share</b>				1.23	0.65	1.05	1.38	1.73	2.08	2.37
<b>FCF/Share</b>				-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.

## Disclaimer

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