



Granite Real Estate Investment Trust (GRP-UN)

Updated January 9th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	4.4%	Market Cap:	\$2.7B
Fair Value Price:	\$41	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/30/20 ¹
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	4/15/20 ²
Dividend Yield:	4.1%	5 Year Price Target	\$50	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	3.9%

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 trust 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 make 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 trust has three different types of properties which make up its portfolio: special purpose, multi-purpose, and modern logistics/distribution warehouses. More than a 50% of the trust's revenue comes from its special purpose properties, 37% of its revenue is attributed to its multi-purpose properties and the remaining 13% of its rental income comes from modern logistics/distribution warehouses. The trust's largest tenant is Magna International (MGA). Magna and its subsidiaries accounts for 54% of its annualized revenue. This \$2.7 billion market capitalization trust is listed on the New York Stock Exchange under the ticker GRP-UN.

Granite REIT's Q3 results for the period ending September 30th, 2019 showed that NOI, FFO, and AFFO all saw solid year-over-year growth. NOI increased from \$55.7 million to \$60.1 million, same property NOI grew by 5.8% on a constant currency basis, FFO-per-unit increased from \$0.86 in Q3 2018 to \$0.93 in Q3 2019, and AFFO-per-unit grew from \$0.82 to \$0.90. Management capitalized on bullish sentiment and compressing cap rates in its markets by realizing \$78.2 million in net fair value gains on investment properties during the quarter. The trust also set itself up for future growth during the quarter through several acquisitions, totaling ~\$100 million.

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	\$2.24	\$2.02	\$2.56	\$2.42	\$2.47	\$2.80	\$2.93	\$3.57
DPS	N/A	N/A	N/A	N/A	\$1.60	\$1.68	\$1.75	\$1.85	\$1.98	\$1.96	\$2.06	\$2.50
Shares³	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 is performing. Granite has only six reportable years of operations. Since 2013, the trust has grown its 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 4% will continue for our estimates, which drives a 2024 FFO/S target of \$3.57 and a 5-year price target of \$50. To achieve this growth rate, the trust will need to continue to grow by acquiring new assets, reduce its concentration in Magna and grow its scale in target markets.

¹ Estimate

² Estimate

³ In millions

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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Granite's dividend has been growing every year since 2013. The trust has increased its dividend by an average of 2.8% annually in that time. We expect that its dividend will continue to grow in line with FFO-per-share going forward, giving us a 2024 DPS estimate of \$2.50 and a 5.0% annual yield.

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	17.1	14.1
Avg. Yld.	N/A	N/A	N/A	N/A	5.6%	5.6%	6.1%	5.7%	5.5%	5.3%	4.1%	5.0%

Granite's average price to funds from operations ratio (P/FFO) has oscillated around its historic average of 14.1. Comparing the REIT's current P/FFO ratio to its historic average shows Granite is considerably overvalued at current prices. We anticipate valuation multiple compression to provide a meaningful headwind to total returns in the coming 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%

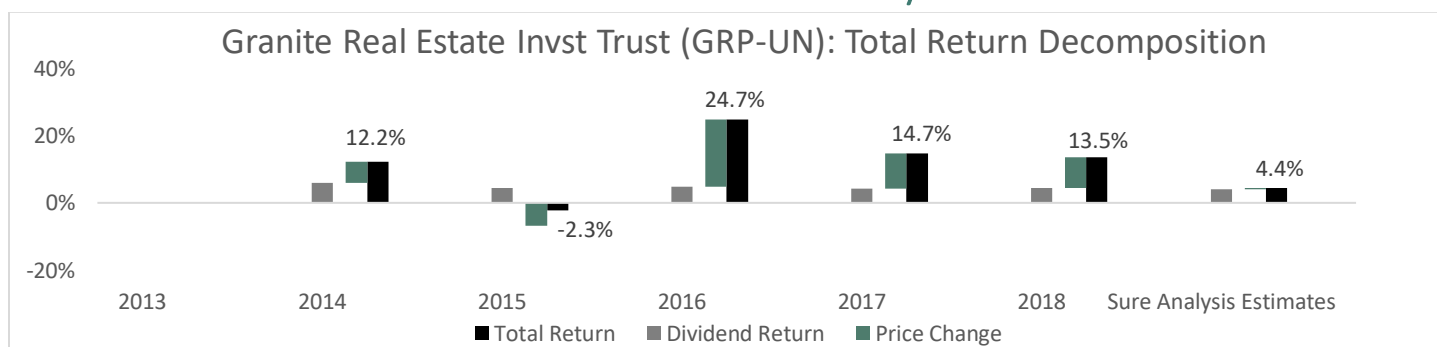
Granite currently has very high exposure to its largest tenant, Magna, which makes up 54% of its annualized revenue (71% in 2017) and 47% of its gross leasable area (61% in 2017). With that said, these figures are significantly lower than in 2014 when 83% of Granite's revenue was coming from Magna. In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

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 trust to dispose of certain types of real estate if needed, and the costs of holding its investments would be more expensive. Another way which Granite would be adversely affected by a recession is its cash inflows could decline from a declining prospect of incoming receipts.

Final Thoughts & Recommendation

Overall, we expect total returns of 4.4% annually, mainly driven by its 4.1% dividend yield, with growth expected to slightly outpace multiple compression. Granite suffers from two primary risks. First, the serious concentration of revenue from one tenant is troubling (although Magna does possess a stellar balance sheet). 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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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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