Lamar Advertising (LAMR)

Updated January 8th, 2020 by Samuel Smith

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$8.9B
Fair Value Price:	$75	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	3/13/20[1]
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	3/30/20[2]
Dividend Yield:	4.4%	**5 Year Price Target**	$100	**Years of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.3%

Overview & Current Events

Lamar Advertising traces its lineage back to 1902 when Charles Lamar helped form a small poster trust in Florida. Since that time, the business has grown exponentially into an advertising giant with 350,000 outdoor displays in nearly every state, Canada and Puerto Rico. The trust changed its corporate structure to become a REIT in 2014 and today, it trades with a $8.9 billion market capitalization and produces in excess of $1.6 billion in annual revenue.

Lamar reported Q3 earnings on 11/5/19. Net revenue increased by a strong 9.4% to $457.8 million and adjusted EBITDA surged 11.8% to $215.2 million. However, much of this growth was due to acquisitions. Adjusting for acquisitions, net revenue increased by only 3.4% and adjusted EBITDA grew by 5.6%. Still, even this adjusted EBITDA growth is still impressive. Local revenue grew by 3.1%, national and programmatic revenue increased by 6.9%, and same unit digital revenue increased by 6.9%. This surge of growth across the business resulted in AFFO growth of 8.6% and diluted AFFO-per-share growth of 7.3%, both of which are very impressive numbers given the high dividend yield the company offers. Management expects this growth momentum to continue into the fourth quarter of the fiscal year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS	$3.03	$2.94	$3.31	$3.25	$3.62	$4.08	$4.59	$5.00	$5.05	$5.50	***$5.75***	***$7.69***
DPS	---	---	---	---	---	---	$2.50	$2.75	$3.02	$3.56	***$3.84***	***$4.92***
Shares[3]	92	93	93	94	95	96	97	97	98	99	***100***	***105***

At times in the past, Lamar has struggled to grow as it produced less in FFO-per-share in 2013 than it did in 2008. However, since then Lamar has been busy growing organically and through acquisitions, fueling strong FFO-per-share growth. The trust is experiencing strong growth tailwinds after growing AFFO/share by 8.9% in 2018 and is carrying new acquisitions with it into 2019. That being said, we see it taking a bit of time to fully integrate and synergize the new acquisitions. As a result, we are lowering our FFO/share annual growth forecast from 7% to 6% moving forward.

We see revenue as the main driver of growth as Lamar grows organically and through acquisition, so a ~5% revenue tailwind should drive results. The additional revenue should provide some leverage on the trust's largely fixed expense base, improving margins, providing the extra 1% of FFO/share growth. Lamar has significant debt, so interest expense consumes about one-quarter of operating income, but it has done a nice job in recent years of keeping its debt at manageable levels. We forecast the dividend to rise at roughly the rate of FFO-per-share.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/FFO	10.3	13.6	8.3	11.9	14.4	13.1	13.1	13.4	14.7	14.2	***15.3***	***13.0***
Avg. Yld.	---	---	---	---	---	---	4.9%	4.8%	4.8%	4.8%	***4.4%***	***4.9%***

[1] Estimate
[2] Estimate
[3] In millions

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Lamar's price-to-funds-from-operations ratio has moved around a lot in the past decade due to choppy earnings results. We see the current valuation as being in excess of fair value, which we've estimated at 13 times FFO-per-share due to the choppiness of earnings and the heavily-leveraged, acquisition-focused business model. At today's multiple of 15.3 times 2019 FFO, we see a headwind to total returns in the years to come from multiple contraction as the market seems to have fully priced in the current growth momentum.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
Payout	---	---	---	---	---	---	55%	55%	60%	65%	***67%***	***64%***

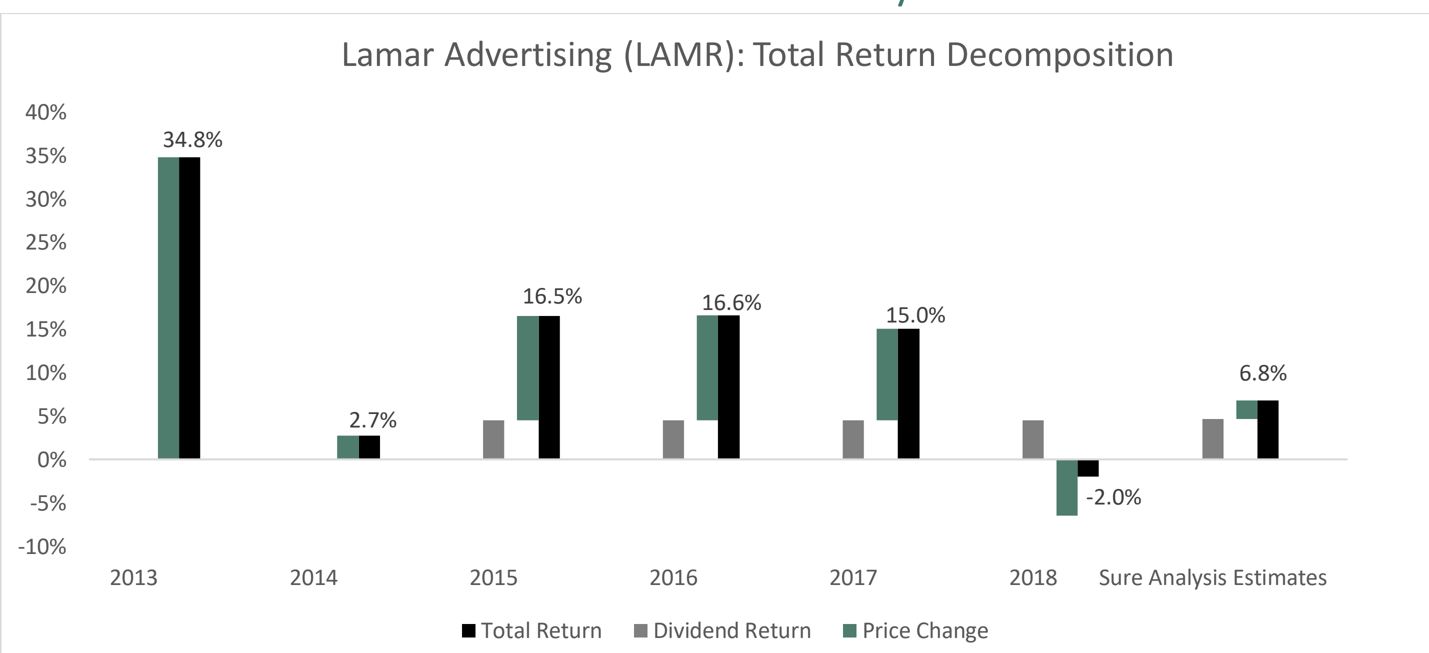
Lamar's quality metrics have been remarkably stable considering the amount of change the trust has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have plateaued. The trust's balance sheet remains around three-quarters encumbered by debt, and that should remain the same. Interest coverage has improved markedly in recent years and with a strong FFO growth outlook, it should only improve further. The dividend is about two-thirds of FFO and we see it remaining in that area as the payout keeps pace with FFO growth.

Lamar is somewhat susceptible to recession but during the Great Recession, its FFO-per-share dipped only briefly before recovering. Its immense size is certainly a competitive advantage, and its long operating history and brand it has built over the past century is certainly a long-term asset. Lamar's competitive positioning should continue to improve with its acquisition-heavy strategy moving forward.

Final Thoughts & Recommendation

Given its attractive yield and growth outlook, Lamar has the potential to generate solid annualized total returns. At the same time, we estimate it is trading above fair value due to the leverage and acquisition risk involved, not to mention its recession vulnerable business model. As a result, we expect multiple contraction to reduce annualized total returns to 6.8% over the next half decade. For defensive investors looking for a strong yield, the stock is a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1056	1092	1131	1180	1246	1287	1353	1500	1541	1627
Gross Profit	658	694	722	761	809	834	880	975	1000	1065
Gross Margin	62.3%	63.5%	63.8%	64.5%	64.9%	64.8%	65.0%	65.0%	64.9%	65.5%
SG&A Exp.	229	199	202	211	232	231	242	269	276	289
D&A Exp.	337	313	300	296	301	258	191	205	211	225
Operating Profit	98	135	173	201	220	275	374	424	451	468
Operating Margin	9.2%	12.3%	15.3%	17.0%	17.6%	21.4%	27.7%	28.3%	29.2%	28.7%
Net Profit	-58	-40	7	8	40	254	263	299	318	305
Net Margin	-5.5%	-3.7%	0.6%	0.7%	3.2%	19.7%	19.4%	19.9%	20.6%	18.8%
Free Cash Flow	255	279	212	270	289	345	367	414	398	447
Income Tax	-36	-23	6	8	23	-110	22	13	9	11

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3944	3649	3427	3514	3402	3319	3364	3899	4214	4545
Cash & Equivalents	112	92	34	59	33	26	22	36	115	21
Goodwill & Int. Ass.	2095	1996	1904	1953	1923	1880	1949	2364	2537	2835
Total Liabilities	3112	2830	2588	2652	2469	2337	2343	2829	3111	3413
Accounts Payable	11	13	13	14	13	16	17	18	18	21
Long-Term Debt	2675	2409	2159	2161	1939	1900	1891	2349	2557	2889
Shareholder's Equity	832	819	839	862	933	981	1021	1070	1103	1132
D/E Ratio	3.22	2.94	2.57	2.51	2.08	1.94	1.85	2.20	2.32	2.55

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-1.4%	-1.1%	0.2%	0.2%	1.2%	7.5%	7.9%	8.2%	7.8%	7.0%
Return on Equity	-6.8%	-4.9%	0.8%	0.9%	4.5%	26.5%	26.2%	28.6%	29.2%	27.3%
ROIC	-1.6%	-1.2%	0.2%	0.3%	1.4%	8.8%	9.1%	9.4%	9.0%	7.9%
Shares Out.	92	93	93	94	95	96	97	97	98	99
Revenue/Share	11.51	11.84	12.14	12.60	13.15	13.51	14.04	15.36	15.67	16.42
FCF/Share	2.78	3.03	2.27	2.89	3.05	3.62	3.81	4.24	4.04	4.51

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