



Gladstone Land Corporation (LAND)

Updated February 21st, 2020 by Josh Arnold

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	1.4%	Market Cap:	\$295M
Fair Value Price:	\$11	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	03/19/20
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	03/31/20
Dividend Yield:	3.8%	5 Year Price Target	\$13	Years Of Dividend Growth:	6
Dividend Risk Score:	F	Retirement Suitability Score:	F	Last Dividend Increase:	0.2%

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 \$295 million. The trust went public in early 2013.

Gladstone reported Q4 and full-year earnings on February 19th and results beat expectations on the top and bottom lines. The trust reported adjusted funds-from-operations of \$0.57, up strongly from the \$0.51 in AFFO reported in 2018. The gain in AFFO was primarily attributable to additional lease revenue earned on recent acquisitions, as well as higher participation rents. This was partially offset by higher interest expense, higher dividends paid on preferred stock, increased property operating expenses, and higher incentive compensation.

The trust acquired 26 new farms in 2019 covering 13,330 acres in for different states, for a total consideration of \$252.7 million. The weighted average cap rate for these transactions was 6.5%, but all leases on these farms contain provisions that are expected to drive cash rents higher in future years.

We're out with an initial estimate of \$0.60 in AFFO-per-share for this year as we see Gladstone's strong momentum, particularly with acquisitions, as driving higher AFFO.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	---	---	\$0.57	\$0.16	\$0.25	\$0.40	\$0.54	\$0.56	\$0.51	\$0.57	\$0.60	\$0.70
DPS	---	---	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.57
Shares¹	---	---	2.8	6.2	6.9	8.6	10.8	13.4	16.3	16.3	21.0	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. With margins once again moving in the right direction, we think Gladstone can grow at 3% annually over the long-term. Acquisitions and rent escalations are likely to be the only sources of AFFO growth in the coming years, as has been the case for some time.

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 3.8%. 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 properties. Given this, Gladstone has to tightly control operating expenses to move the needle on a per-share basis,

¹ Share count 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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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 fractionally 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 dividend.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/AFFO	---	---	---	100.7	49.3	25.8	18.9	22.0	24.8	21.2	23.7	18.0
Avg. Yld.	---	---	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.8%	4.5%

Gladstone's price-to-AFFO has been very high in recent years and sits at 23.7 today. We see fair value, given its low projected growth and maxed out dividend, at 18 times AFFO. That implies a -5.4% annual headwind to total returns should the stock revert to this valuation.

The yield is 3.8% today and we see it rising to 4.5% over time as the essentially flat dividend is made more valuable by a falling share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

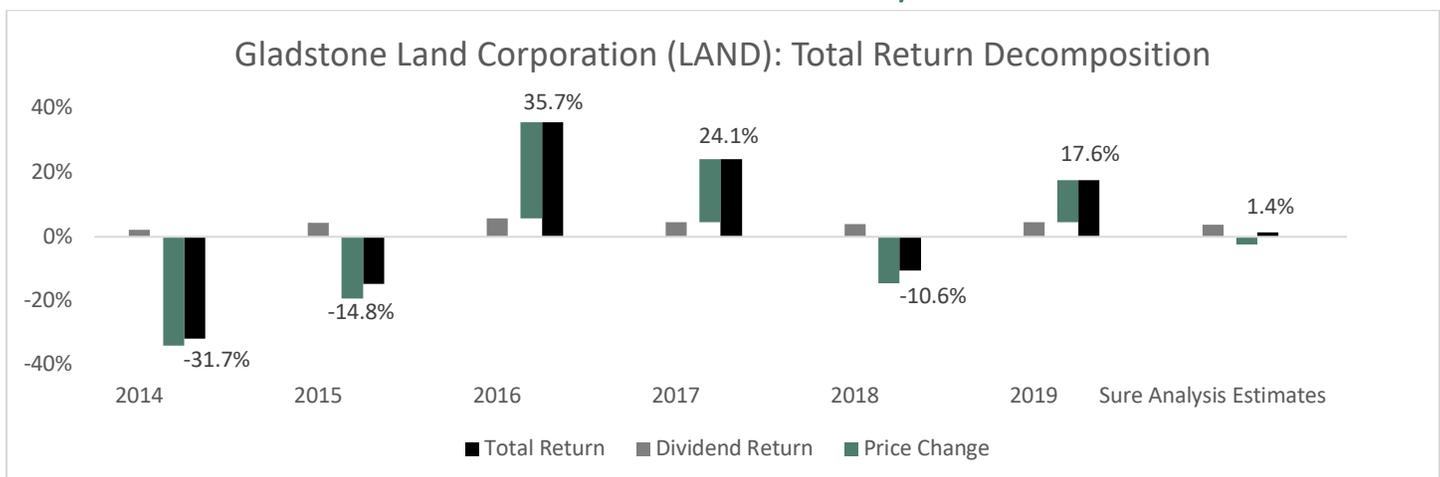
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	144%	118%	93%	93%	104%	93%	90%	82%

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 very near 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 rating. We see total annual returns of just 1.4%, consisting of the dividend yield, modest growth and a moderate 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue			3	4	7	12	17	25	37	41
Gross Profit			3	4	7	11	17	24	35	38
Gross Margin			96.5%	97.0%	94.0%	93.3%	95.5%	94.7%	94.4%	93.9%
SG&A Exp.			1	2	3	3	4	5	5	6
D&A Exp.			0	1	2	3	5	7	9	13
Operating Profit			2	2	2	5	8	11	12	19
Operating Margin			60.6%	37.4%	29.5%	39.6%	44.2%	45.3%	33.0%	47.4%
Net Profit			1	-1	0	1	0	0	3	2
Net Margin			17.7%	-30.3%	-1.7%	4.8%	2.6%	-0.1%	7.2%	4.3%
Free Cash Flow			-6	-39	-68	-73	-86	1	-12	9
Income Tax			0	2	0					

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets			41	94	152	229	334	462	565	817
Cash & Equivalents			1	16	3	3	2	3	15	14
Inventories								2	0	
Goodwill & Int. Ass.			0	0	1	2	2	5	6	
Total Liabilities			33	45	92	151	246	344	384	5
Accounts Payable			1	1	2	3	3	7	9	538
Long-Term Debt			31	43	86	142	207	301	336	10
Shareholder's Equity			8	49	60	78	77	110	176	482
D/E Ratio			3.79	0.89	1.44	1.82	2.70	2.74	1.91	277

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets			1.6%	-1.8%	-0.1%	0.3%	0.2%	0.0%	0.5%	0.3%
Return on Equity			7.7%	-4.3%	-0.2%	0.8%	0.6%	0.0%	1.8%	0.8%
ROIC			1.7%	-1.9%	-0.1%	0.3%	0.2%	0.0%	0.6%	0.3%
Shares Out.			2.8	6.2	6.9	8.6	10.8	13.4	16.3	16.3
Revenue/Share			1.23	0.65	1.05	1.38	1.73	2.08	2.37	2.08
FCF/Share			-2.31	-6.30	-9.88	-8.44	-8.59	0.11	-0.79	0.46

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

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