



Global Net Lease (GNL)

Updated March 23rd, 2020 by Samuel Smith

Key Metrics

Current Price:	\$12	5 Year CAGR Estimate:	14.7%	Market Cap:	\$1.1B
Fair Value Price:	\$14	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	4/10/20 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	4/15/20 ²
Dividend Yield:	14.6%	5 Year Price Target	\$15	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	NA

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. (56% of locations) and Europe (44% of locations) with an emphasis on sale-leaseback transactions. The trust owns well in excess of 300 properties, of which office is the largest sector, followed by industrial and retail. Global Net Lease is a \$1.1 billion market capitalization business.

On February 26th, 2020 Global Net Lease reported Q4 results. Adjusted FFO per share came in at \$0.44 for the quarter, down from \$0.50 per share in the year-ago quarter. The decline was largely fueled by increases in shares outstanding wherein the proceeds were not fully invested for the entire quarter. During the quarter, the trust closed and had pipeline acquisitions of \$526 million. It brought in revenue of \$76.7 million, up from \$71.2 million in the year-ago period. Portfolio occupancy improved by 40 basis points year-over-year to 99.6%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	---	---	---	---	---	\$1.96	\$2.24	\$2.10	\$2.11	\$2.15	\$2.00	\$2.15
DPS	---	---	---	---	---	\$1.40	\$2.13	\$2.13	\$2.13	\$2.13	\$1.75	\$1.75
Shares³	---	---	---	---	---	58	57	67	70	75	75	85

Note that Global Net Lease was not publicly listed until 2015, which results in a very short observation history.

From first glance, Global Net Lease appears to be a reasonable REIT with 111 tenants, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar, diversified across seven countries. However, there are a variety of underlying concerns, especially as it relates to potential growth.

General concerns include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an “implied” credit model.

While GNL should be fairly well insulated from headwinds due to the coronavirus thanks to their net lease structure and their diversified pool of investment grade tenants, we do expect them to have to cut their dividend this year as coverage was already very tight. However, the retained cash flow will enable them to invest accretively and return to FFO-per-share growth in the years to come as the economy recovers and behavioral habits return to normal.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/AFFO	---	---	---	---	12.2	10.5	9.8	8.4	9.3	9.5	6.0	7.0
Avg. Yld.	---	---	---	---	5.9%	9.1%	10.3%	12.1%	10.7%	11.0%	14.6%	11.6%

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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Given Global Net Lease's limited trading history, it's hard to assign a fair value multiple on the security. Over the past four years shares have traded hands in the \$16 to \$27 range, implying an AFFO multiple in the 7 to 13 range. Given the current economic headwinds and uncertainty across the globe, our fair value estimate will be on the low end of the spectrum at 7 times AFFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	71%	95%	101%	101%	99%	88%	81%

The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well laddered debt maturities, and high percentage of fixed-rate debt. However, its elevated payout ratio puts it at risk of a dividend cut if the business stumbles at all, and its reliance on equity issuances for acquisitions make it extremely challenging to grow.

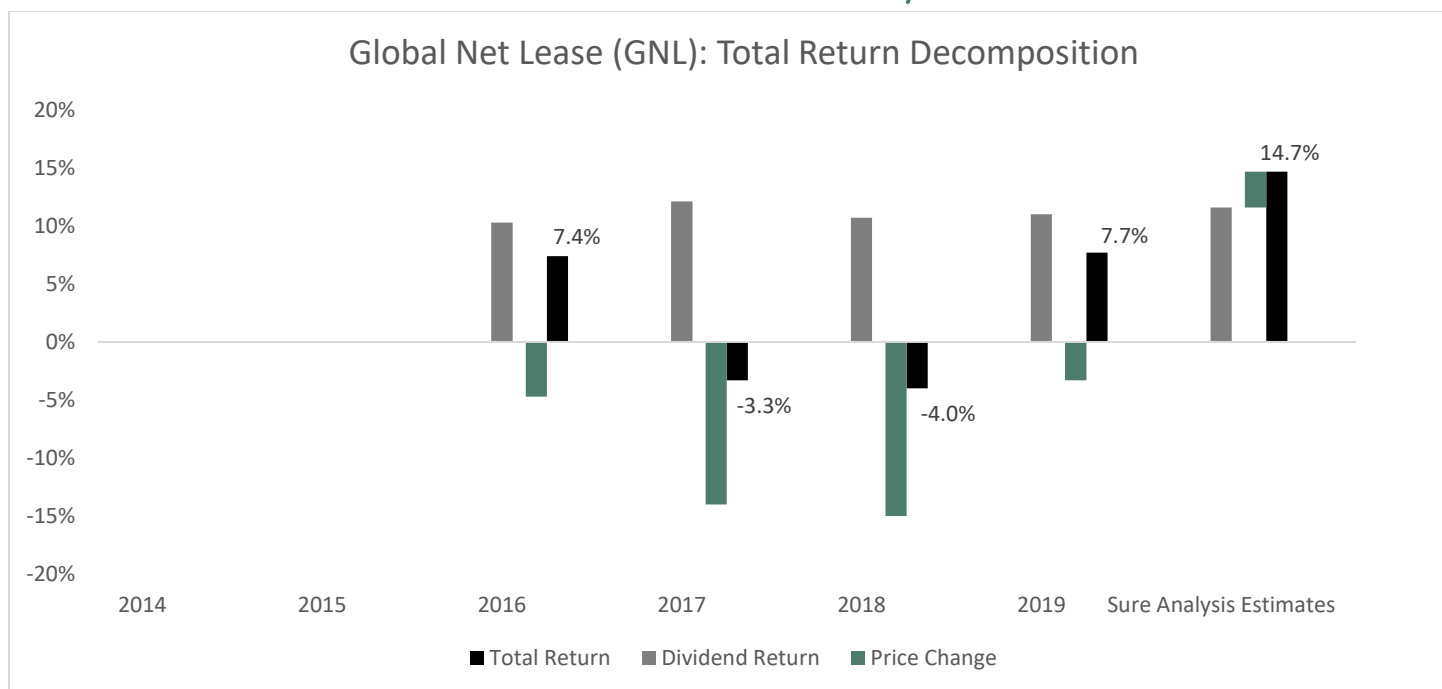
As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak means that we expect a dividend cut this year.

Final Thoughts & Recommendation

GNL is one of the best positioned REITs to weather the current turmoil with its diversified and defensively positioned portfolio of mostly investment grade tenants signed to long term triple net leases. However, the dividend coverage is tight and the external management leaves investors at considerable risk of suffering from misaligned interests and a very possible dividend cut.

We rate shares a hold given the 14.7% annualized total return potential over the next half decade. However, the threat of a dividend cut makes this too speculative for conservative dividend growth investors to buy at this time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue			0	4	93	205	214	259	282	306
Gross Profit			0	4	85	187	195	230	253	278
Gross Margin			100.0%	98.9%	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%
SG&A Exp.			0	0	5	43	31	29	41	53
D&A Exp.			0	2	40	90	94	115	122	128
Operating Profit			(0)	2	40	54	70	88	93	99
Operating Margin			-583.3%	42.7%	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%
Net Profit			(0)	(7)	(54)	(2)	47	24	11	46
Net Margin			-1376%	-176.9%	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%
Free Cash Flow			(0)	(4)	(19)	92	114	128	143	129
Income Tax			-	-	(1)	6	4	3	2	4

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets				215	2,429	2,541	2,891	3,039	3,309	3,702
Cash & Equivalents				12	65	70	70	102	100	270
Goodwill & Int. Ass.				48	488	521	601	652	698	674
Total Liabilities				92	1,012	1,320	1,535	1,624	1,881	1,992
Accounts Payable				3	15	19	23	23	32	23
Long-Term Debt				79	942	1,242	1,419	1,514	1,772	1,869
Shareholder's Equity				123	1,417	1,205	1,348	1,413	1,425	1,698
D/E Ratio				0.64	0.66	1.03	1.05	1.07	1.24	1.10

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets					-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%
Return on Equity					-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%
ROIC					-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%
Shares Out.						58	57	67	70	75
Revenue/Share					1.66	3.53	3.78	3.88	4.05	3.55
FCF/Share					(0.33)	1.58	2.01	1.91	2.05	1.49

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

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