



Lamar Advertising (LAMR)

Updated May 27th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$69	5 Year CAGR Estimate:	6.5%	Market Cap:	\$6.9B
Fair Value Price:	\$60	5 Year Growth Estimate:	4.6%	Ex-Dividend Date:	6/13/20 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	6/30/20 ²
Dividend Yield:	5.6%	5 Year Price Target	\$75	Years of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	4.2%

Overview & Current Events

Lamar Advertising traces its lineage back to 1902 when Charles Lamar helped form a small poster company 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 \$6.9 billion market capitalization and produces in excess of \$1.6 billion in annual revenue.

Lamar reported Q1 2020 results on 5/7/20. Net revenue grew by 5.8% to \$406.6 million, net income came in at \$40.5 million, and adjusted EBITDA grew by 9.4% to \$159.8 million. Adjusting for acquisitions, net revenue increased by 4.4% and EBITDA grew by 8.7%. Despite COVID-19 headwinds, in markets representing 80% of their billboard revenues, travel activity is back to at least 75% of its year-ago averages. April acquisition-adjusted net revenues were down approximately 20% year-over-year, showing that the virus is having a significant impact on the business. That said, the trust's liquidity position is strong with roughly half a billion dollars in cash on hand and \$112 million in additional revolver capacity as of quarter end. The trust also reduced its total 2020 capital expenditure budget from \$130 million to \$58 million to further conserve liquidity.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFOPS	\$2.94	\$3.31	\$3.25	\$3.62	\$4.08	\$4.59	\$5.00	\$5.05	\$5.50	\$5.75	\$5.00	\$6.25
DPS	---	---	---	---	---	\$2.50	\$2.75	\$3.02	\$3.56	\$3.84	\$3.85	\$4.00
Shares³	93	93	94	95	96	97	97	98	99	100	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 2020. That being said, we see it taking a bit of time to fully integrate and synergize the new acquisitions.

We see revenue as the main driver of growth as Lamar grows organically and through acquisition, as the additional revenue should provide some leverage on the trust's largely fixed expense base, improving margins, providing extra 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. Given that Lamar is fairly resistant to recessions, we don't expect the coronavirus to have an outsized impact on performance this year, but we are still forecasting a dip in FFO per share. We expect, however, that management will do a small token dividend raise to keep their growth streak going.

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	13.6	8.3	11.9	14.4	13.1	13.1	13.4	14.7	14.2	15.3	13.8	12.0
Avg. Yld.	---	---	---	---	---	4.9%	4.8%	4.8%	4.8%	4.4%	5.6%	5.3%

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 below fair value, which we've estimated at 12 times FFO due to the choppiness of earnings and the heavily-leveraged, acquisition-focused business model. Given current headwinds from the coronavirus outbreak likely reducing the growth rate moving forward, we have reduced our fair value estimate to 12 times FFO. At today's multiple of 13.8 times 2020 FFO, we see a headwind to total returns in the years to come from multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	55%	55%	60%	65%	67%	77%	64%

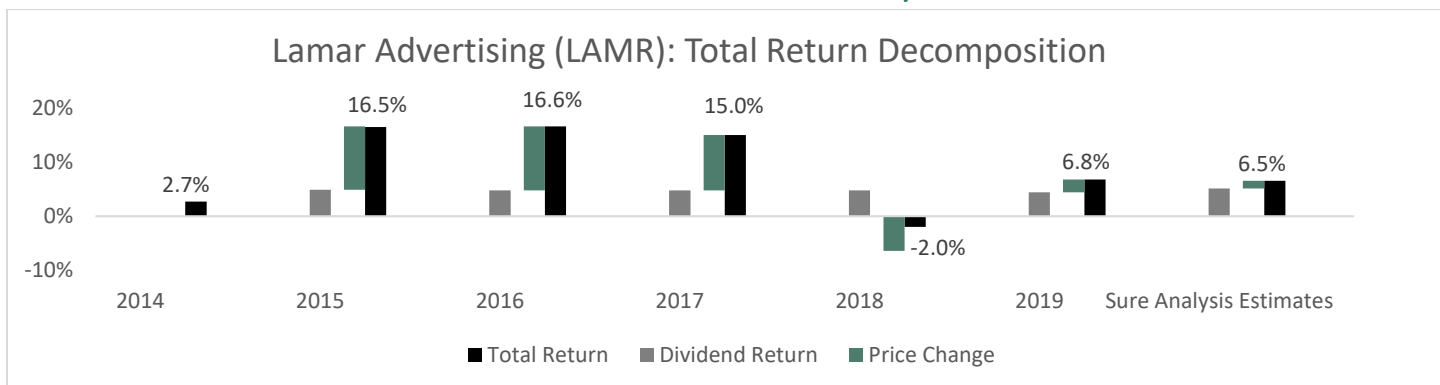
Lamar's quality metrics have been remarkably stable considering the amount of change the trust has gone through in the past decade in terms of strategy and converting to a REIT. Margins have crept a bit higher over time and while we see some operating leverage on its expense base, gross margins have 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 three-quarters of FFO and we see it declining somewhat over time.

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

Lamar offers investors a well-covered and attractive 5.6% yield along with solid growth prospects. We believe management will continue to grow the dividend in the years to come, though growth will slow as the current headwinds will force management to redouble their efforts to deleverage instead of investing in new acquisitions. Overall, we view shares as a hold as the income looks attractive, but total returns are only expected to be 6.5% annualized over the next half decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,092	1,131	1,180	1,246	1,287	1,353	1,500	1,541	1,627	1,754
Gross Profit	694	722	761	809	834	880	975	1,000	1,065	1,164
Gross Margin	63.5%	63.8%	64.5%	64.9%	64.8%	65.0%	65.0%	64.9%	65.5%	66.4%
SG&A Exp.	247	249	264	289	300	314	346	339	372	403
D&A Exp.	313	300	296	301	258	191	205	211	225	250
Operating Profit	135	173	201	220	275	374	424	451	468	511
Operating Margin	12.3%	15.3%	17.0%	17.6%	21.4%	27.7%	28.3%	29.2%	28.7%	29.1%
Net Profit	(40)	7	8	40	254	263	299	318	305	372
Net Margin	-3.7%	0.6%	0.7%	3.2%	19.7%	19.4%	19.9%	20.6%	18.8%	21.2%
Free Cash Flow	279	212	270	289	345	367	414	398	447	490
Income Tax	(23)	6	8	23	(110)	22	13	9	11	(4)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	3,649	3,427	3,514	3,402	3,319	3,364	3,899	4,214	4,545	5,941
Cash & Equivalents	92	34	59	33	26	22	36	115	21	26
Goodwill & Int. Ass.		147	160	162	170	174	190	202	236	255
Total Liabilities	1,996	1,904	1,953	1,923	1,880	1,949	2,364	2,537	2,835	2,905
Accounts Payable	2,830	2,588	2,652	2,469	2,337	2,343	2,829	3,111	3,413	4,761
Long-Term Debt	13	13	14	13	16	17	18	18	21	15
Shareholder's Equity	2,409	2,159	2,161	1,939	1,900	1,891	2,349	2,557	2,889	2,980
D/E Ratio	819	839	862	933	981	1,021	1,070	1,103	1,132	1,180

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-1.1%	0.2%	0.2%	1.2%	7.5%	7.9%	8.2%	7.8%	7.0%	7.1%
Return on Equity	-4.9%	0.8%	0.9%	4.5%	26.5%	26.2%	28.6%	29.2%	27.3%	32.2%
ROIC	-1.2%	0.2%	0.3%	1.4%	8.8%	9.1%	9.4%	9.0%	7.9%	9.1%
Shares Out.	93	93	94	95	96	97	97	98	99	100
Revenue/Share	11.84	12.14	12.60	13.15	13.51	14.04	15.36	15.67	16.42	17.48
FCF/Share	3.03	2.27	2.89	3.05	3.62	3.81	4.24	4.04	4.51	4.88

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

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