



STAG Industrial (STAG)

Updated May 20th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	11.8%	Market Cap:	\$3.7 B
Fair Value Price:	\$27	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	6/29/2020
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	7/15/2020
Dividend Yield:	6.0%	5 Year Price Target	\$34	Years Of Dividend Growth:	10
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	0.7%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 456 buildings across 38 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$3.7 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 55% of the tenants are publicly rated and 31% of the tenants are rated “investment grade.” The company typically does business with established tenants to reduce risk.

In early May, STAG Industrial reported (5/1/20) financial results for the first quarter of fiscal 2020. The report was very similar to the previous three reports. Core FFO grew 33% over last year’s quarter thanks to the strength of the industrial market. However, core FFO per share rose only 4% due to extensive issuance of new units. Net operating income grew 25% over last year’s quarter. During the quarter, the REIT achieved an occupancy rate of 96.2%. STAG Industrial is now facing a headwind due to the recession caused by the coronavirus. However, the effect of the pandemic on the REIT has been limited so far thanks to the high credit profile of its tenants. The REIT collected 99% of its rental income in March and 90% of its rental income in April. It also expects to collect an additional 7% in April rental income in the near future. Due to the pandemic, we have lowered our forecast for FFO per share this year from \$1.90 to \$1.80.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	---	\$1.03	\$1.25	\$1.44	\$1.33	\$1.42	\$1.43	\$1.70	\$1.80	\$1.84	\$1.80	\$2.30
DPS	---	\$0.73	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.44	\$1.51
Shares¹	---	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	148.0	210.0

STAG Industrial has grown its FFO at a 5.7% average annual rate in the last seven years. It still has a market share that is less than 1% of its target market. Therefore, it has ample room to continue to grow for years. As we expect the REIT to recover from the pandemic next year, along with the economy, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$1.80 this year to \$2.30 in 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg P/FFO	---	11.1	14.4	14.2	18.4	13.0	16.7	16.4	14.5	16.0	13.3	15.0
Avg. Yld.	---	6.4%	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	4.9%	6.0%	4.4%

¹ In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 13.3, which is lower than its historical average of 15.0. If the stock reverts to its average valuation level over the next five years, it will enjoy a 2.4% annualized gain thanks to the expansion of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	70.9%	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	78.9%	77.7%	80.0%	65.9%

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 5.2 years and about half of the leases maturing after the end of 2023. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. Thanks to reliable cash flows, STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a generous 6.0% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years.

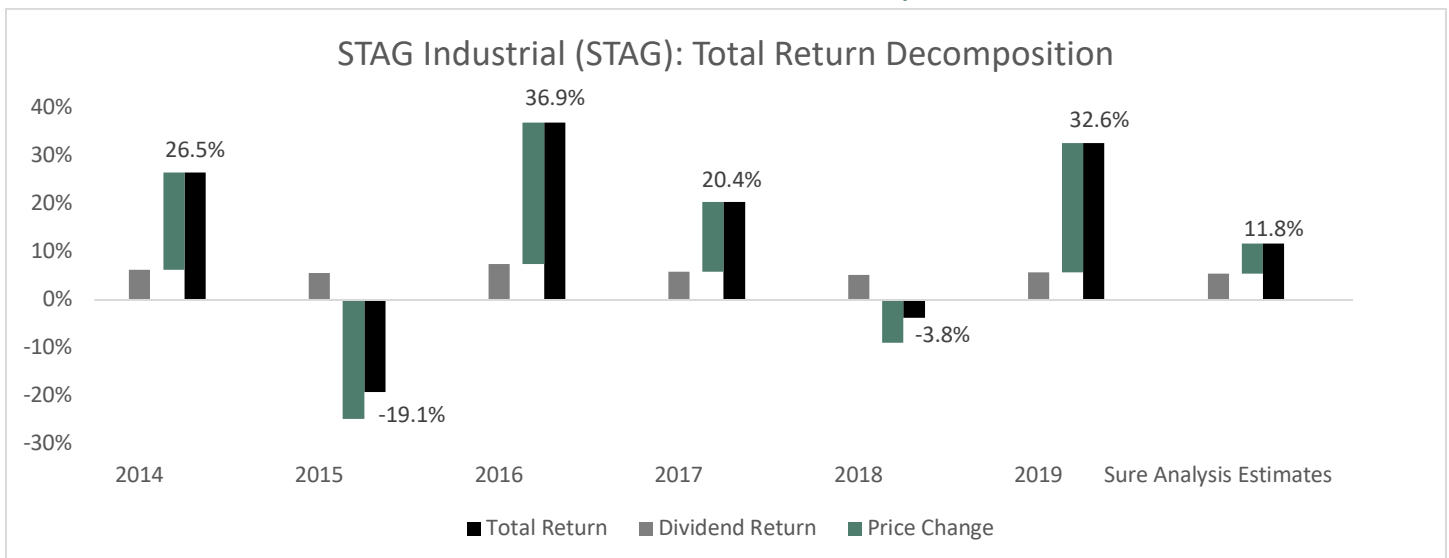
On the other hand, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than tripled, from 42 million in 2013 to 148 million now. While the dividend per share has risen only 18% since 2013, the annual amount paid has nearly tripled, from \$76 million in 2013 to \$202 million in the last 12 months. As a result, the financial burden of the dividend on the REIT has greatly increased.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. The recession caused by the coronavirus has hardly affected the performance of STAG Industrial so far, but it is likely to impact results if the pandemic lasts longer than currently anticipated. In such a case, the REIT will have an elevated probability of cutting its dividend.

Final Thoughts & Recommendation

STAG Industrial has shed -26% off its peak in February due to the coronavirus but has posted resilient results so far. If the pandemic does not extend beyond this year, the REIT could offer an 11.8% average annual return over the next five years. However, it fails to earn a buy rating due to its vulnerability in the event of a prolonged recession. We rate it as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	26	44	84	134	174	219	250	301	351	406
Gross Profit	20	39	71	110	140	176	201	243	282	331
Gross Margin	76.4%	87.6%	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%	80.3%	81.5%
SG&A Exp.	1	5	15	18	26	29	33	33	34	36
D&A Exp.	10	21	48	77	94	119	132	155	172	190
Operating Profit	10	10	14	24	26	37	43	59	80	109
Op. Margin	38.6%	23.6%	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%	22.9%	26.9%
Net Profit	-3	-5	-6	6	-4	-27	35	31	93	49
Net Margin	-11.4%	-10.3%	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%	26.5%	12.1%
Free Cash Flow	9	15	48	83	97	122	136	162	198	28

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	509	625	1005	1270	1629	1902	2186	2681	3103	4165
Cash & Equivalents	1	16	19	7	24	12	12	25	8	9
Accounts Receivable	N/A	6	9	14	17	21	25	34	42	58
Goodwill & Int. Ass.	4	5	5	N/A	N/A	N/A	N/A	N/A	N/A	475
Total Liabilities	266	315	516	596	738	1044	1119	1270	1433	1801
Accounts Payable	4	6	12	19	22	26	35	43	46	54
Long-Term Debt	240	297	479	556	686	980	1036	1174	1326	1645
Shareholder's Equity	156	162	359	464	725	683	882	1214	1539	2231
D/E Ratio	1.54	1.29	1.12	0.92	0.79	1.19	1.01	0.86	0.82	0.71

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%	3.2%	1.4%
Return on Equity	-3.8%	-2.9%	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%	6.8%	2.6%
ROIC	-0.8%	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%	3.3%	1.4%
Shares Out.	----	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8
Revenue/Share	1.20	2.77	3.36	3.16	3.21	3.30	3.53	3.35	3.38	3.23
FCF/Share	0.43	0.96	1.92	1.95	1.79	1.84	1.92	1.80	1.91	0.22

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

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