



Gladstone Land Corporation (LAND)

Updated June 4th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	1.6%	Market Cap:	\$335M
Fair Value Price:	\$12	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	06/18/20
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	06/30/20
Dividend Yield:	3.5%	5 Year Price Target	\$14	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	0.1%

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 113 farms, comprising nearly 88,000 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 \$892 million, and the stock trades with a market capitalization of \$335 million. The trust went public in early 2013.

Gladstone reported first quarter results on May 6th, with results beating expectations on both the top and bottom lines. Total lease revenues were up \$1.8 million, or 13.3%, primarily driven by an early lease termination payment received from an outgoing tenant, as well as additional rents from recent acquisitions. Core operating expenses increased due to higher related-party fees.

Adjusted funds-from-operations, or AFFO, came to \$5.4 million, up 53.4% or \$1.9 million from the prior quarter. On a per-share basis, AFFO was \$0.25 compared to \$0.17 for the prior quarter. Gains in AFFO were due to higher lease revenues and higher interest expense, which were somewhat offset by an increase in operating expenses.

Farmland portfolio value increased \$14 million quarter-over-quarter to \$892 million, while the trust's portfolio remains at 100% occupancy. Net asset value per share increased fractionally to \$11.46, up 0.4% quarter-over-quarter.

We've boosted our estimate of AFFO-per-share to \$0.67 for this year after very strong Q1 results.

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	\$0.67	\$0.78
DPS	---	---	---	\$1.16	\$0.36	\$0.47	\$0.50	\$0.52	\$0.53	\$0.53	\$0.54	\$0.56
Shares¹	---	---	2.8	6.2	6.9	8.6	10.8	13.4	16.3	16.3	21.6	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 below where we see long-term earnings potential after recent acquisitions. 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 3.5%. 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

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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, as it did for Q1.

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	23.1	18.0
Avg. Yld.	---	---	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.5%	4.0%

Gladstone's price-to-AFFO has been very high in recent years and sits at 23.1 today. We see fair value, given its low projected growth and maxed out dividend, at 18 times AFFO. That implies a sizable annual headwind to total returns should the stock revert to this valuation.

The yield is 3.5% today and we see it rising to 4% over time as the essentially flat dividend is made more valuable by a stagnant share price. We note that Gladstone is already trading above our five-year price target of \$14.

Safety, Quality, Competitive Advantage, & Recession Resiliency

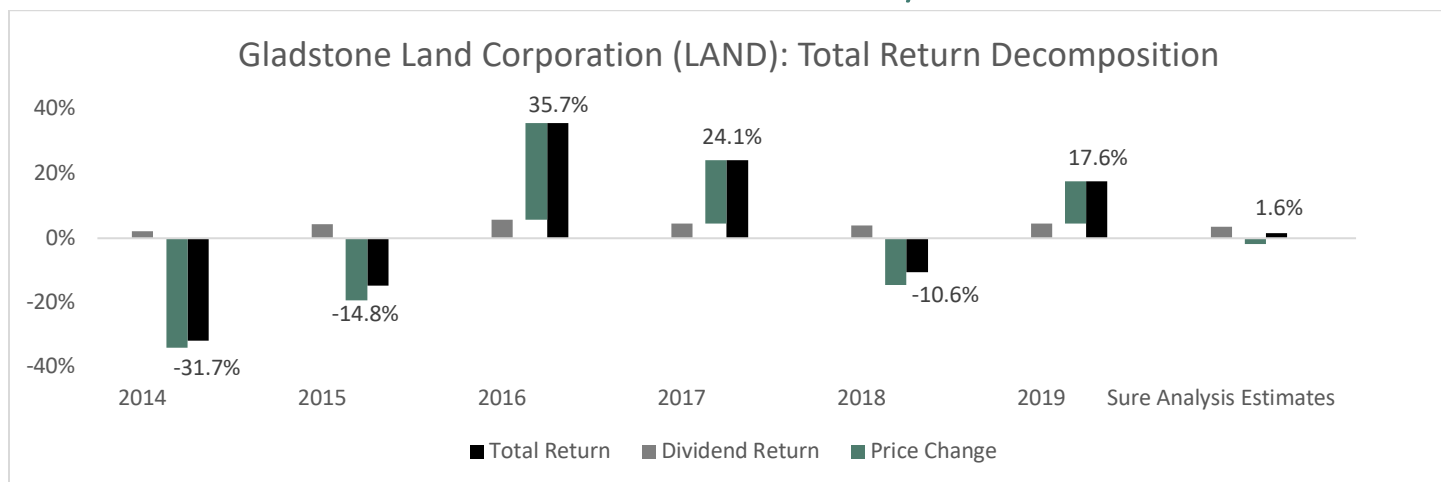
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	144%	118%	93%	93%	104%	93%	80%	73%

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 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 is 80% 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 1.6%, 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 continue to 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	5
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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