



SL Green Realty Corp. (SLG)

Updated October 27th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	21.8%	Market Cap:	\$3.6 B
Fair Value Price:	\$90	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/29/2020
% Fair Value:	51%	5 Year Valuation Multiple Estimate:	14.3%	Dividend Payment Date:	11/16/2020
Dividend Yield:	7.7%	5 Year Price Target	\$104	Years Of Dividend Growth:	9
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	4.1%

Overview & Current Events

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with a market capitalization of \$3.6 billion, and currently owns 93 buildings totaling 41 million square feet.

In late October, SLG reported (10/21/2020) financial results for the third quarter of fiscal 2020. The REIT grew its same-store net operating income by 2% over last year's quarter but its occupancy rate dipped from 95.0% to 94.2% and its funds from operations (FFO) per share remained flat at \$1.75. In the quarter, the REIT collected 96.9% of total billings for office, 70.0% of billings for retail and 92.6% of total billings. These figures somewhat decreased in the first 20 days of October, as SLG collected 90.3% of total billings.

SLG has been significantly affected by the coronavirus crisis, which has caused a recession and thus has hurt several companies that are tenants of SLG. Occupancy of office space in Manhattan was recently reported to be less than 15%. This has caused an unprecedented tenant-friendly environment and challenges to the business of SLG but we still expect the REIT to meet its previous guidance of FFO per share of \$6.60-\$7.10.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	\$4.88	\$4.80	\$5.28	\$5.16	\$5.85	\$6.38	\$8.29	\$6.45	\$6.62	\$6.99	\$6.90	\$8.00
DPS	\$0.40	\$0.55	\$1.08	\$1.49	\$2.10	\$2.52	\$2.94	\$3.14	\$3.29	\$3.44	\$3.54	\$4.10
Shares¹	79.8	86.2	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	78.0	70.0

SLG benefits from reliable growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It also signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has grown its funds from operations per share at a 4.1% average annual rate in the last decade and at a 3.6% annual rate in the last five years. Due to the effect of the pandemic on its business, funds from operations have stumbled this year but they have remained fairly resilient. We expect SLG to grow its funds from operations per share at a 3.0% average annual rate over the next five years, just slightly below the historical rate in order to be on the conservative side.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	12.2	15.2	14.6	17.1	18.2	17.8	12.5	16.1	14.6	12.2	6.7	13.0
Avg. Yld.	0.7%	0.8%	1.4%	1.7%	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	7.7%	3.9%

SLG has traded at an average price-to-FFO ratio of 15.1 during the last decade. Due to the impact of the pandemic on its business, the REIT has plunged ~50% off its peak before the pandemic and thus it is currently trading at a decade-low

¹ 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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FFO multiple of 6.7. We assume a fair price-to-FFO ratio of 13.0. If SLG reaches our fair valuation level in five years, it will enjoy a 14.3% annualized boost to its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	8%	11%	20%	29%	36%	39%	35%	49%	50%	49%	51%	51%

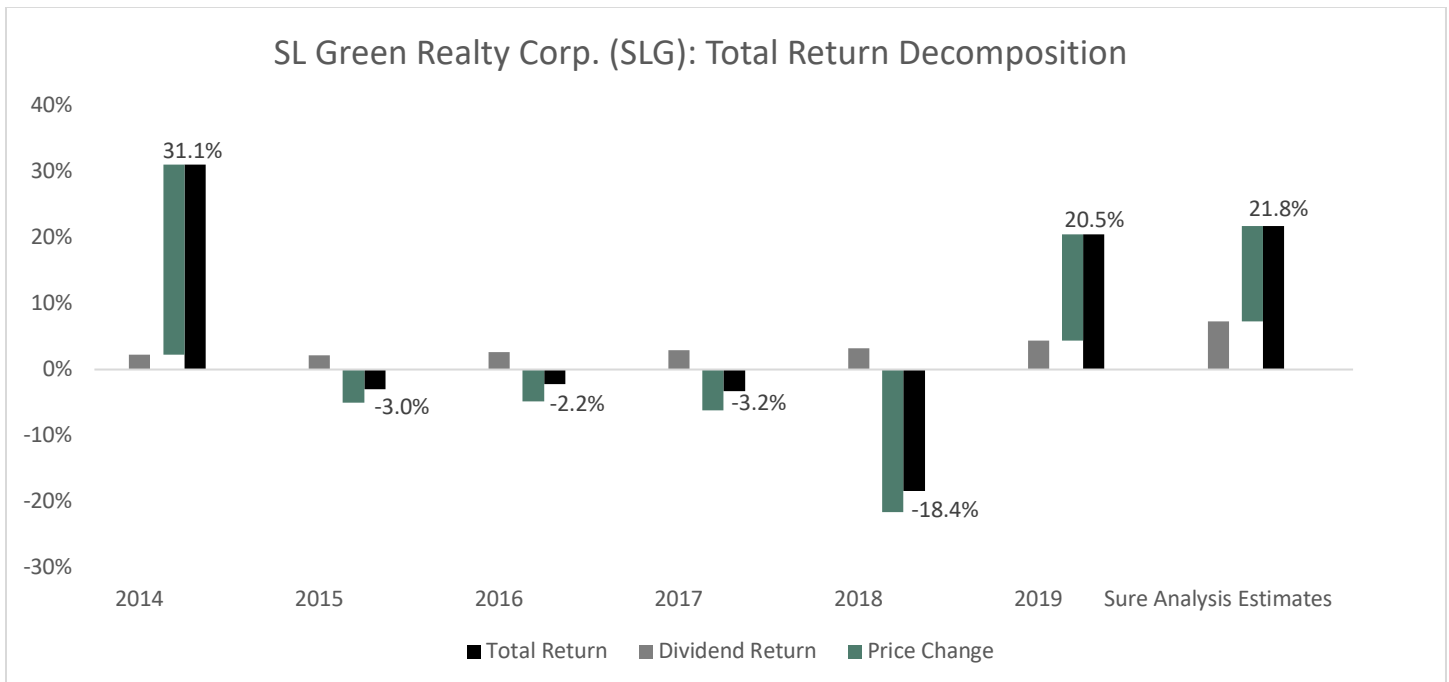
During the last 40 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. As a result, it has developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is currently under pressure due to the pandemic, which has caused a severe recession and a work-from-home trend. However, the REIT has one of the strongest balance sheets in the REIT universe, as its net debt of \$6.2 billion is just 11 times its annual funds from operations. This helps explain the strong BBB credit rating of SLG. Thanks to its financial strength, the REIT can endure the ongoing crisis and emerge stronger whenever the pandemic subsides. It can also maintain its exceptional 7.7% dividend, which is well covered by cash flows, with a healthy payout ratio of 51%. SLG is thus suitable for income-oriented investors who can wait patiently for the recovery of the economy from the pandemic.

Final Thoughts & Recommendation

SLG is the largest landlord in the area of Manhattan and thus it is ideal for those who want to benefit from the reliable, multi-year growth in rental rates in this area. The REIT is currently facing the headwind from the pandemic, which has led many companies to work from home. However, we expect the pandemic to subside and see more people return to working in offices from next year. We also view the -50% plunge of the stock since February as extreme. This plunge has led SLG to become deeply undervalued in our view. Thanks to its 7.7% dividend, 3.0% annual growth of FFO per share and a 14.3% annualized expansion of its valuation level, SLG could offer a 21.8% average annual return over the next five years. We thus rate it as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1084	1247	1290	1371	1520	1663	1864	1511	1227	1239
Gross Profit	683	783	788	859	988	1096	1269	941	779	780
Gross Margin	63%	63%	61%	63%	65%	66%	68%	62%	63%	63%
SG&A Exp.	76	80	83	86	92	95	100	100	93	101
D&A Exp.	240	292	352	358	400	588	846	419	290	284
Operating Profit	379	426	394	449	523	421	338	258	179	400
Operating Margin	35%	34%	31%	33%	34%	25%	18%	17%	15%	32%
Net Profit	301	647	199	138	521	291	261	113	259	281
Net Margin	28%	52%	15%	10%	34%	18%	14%	7%	21%	23%
Free Cash Flow	321	307	347	386	490	526	644	543	442	376

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	11300	13484	14386	14959	17097	19728	15858	13983	12751	12766
Cash & Equivalents	333	138	190	207	281	255	279	128	129	166
Accounts Receivable	---	314	397	447	432	562	496	423	378	327
Long-Term Debt	5818	6834	7217	7627	9097	11302	7331	6630	6115	6556
Shareholder's Equity	133	142	160	146	173	196	191	137	147	167
D/E Ratio	5251	6035	6520	6920	8179	10275	6482	5855	5542	5508

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.8%	5.2%	1.4%	0.9%	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%
Return on Equity	7.0%	12.8%	3.4%	2.2%	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%
ROIC	2.9%	5.5%	1.5%	1.0%	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%
Shares Out.	79.76	86.24	92.87	95.27	99.70	103.73	104.88	103.40	91.53	86.56
Revenue/Share	13.60	14.46	13.89	14.39	15.25	16.03	17.77	14.62	13.41	14.31
FCF/Share	4.03	3.56	3.73	4.05	4.92	5.08	6.14	5.25	4.82	4.35

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

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