Landmark Infrastructure Partners, LP (LMRK)

Updated November 9th, 2020 by Samuel Smith

Key Metrics

Current Price:	$10.7	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$272.4M
Fair Value Price:	$11.0	**5 Year Growth Estimate:**	2.5%	**Ex-Dividend Date:**	02/02/21[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	02/13/21[2]
Dividend Yield:	9.3%	**5 Year Price Target**	$12.4	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	NA

Overview & Current Events

Landmark Infrastructure Partners (LMRK) provides real estate on a leased basis to wireless carriers for their cell towers, advertising operators for their outdoor displays, and power companies for their renewable energy units. 49% of revenues is from wireless carriers, 35% from advertising, and the rest from power generation. LMRK also recently began leasing a neutral-host smart pole designed for carrier and other wireless operators. They have a clever business model, using triple net leases with contractual rent escalation. The company has essentially no maintenance capex and owns property rights (real property interests) in difficult-to-replicate major population centers. The partnership garners 75% of its revenues from so-called tier 1 tenants (large publicly traded companies with national footprints). Three-fourths of its real property interests have lives in excess of 40 years; 40% of them are perpetual. The partnership has a 95% occupancy rate with a 99% historical lease renewal rate. Landmark's sponsor, Landmark Dividend LLC, does the work of finding and negotiating the purchase of the properties using their proprietary database. Landmark Dividend owns a 13% common unit interest in LMRK. Though the traded entity is structured as a partnership, the properties themselves are owned by its REIT subsidiary. They explicitly state that there will be no UBTI tax resulting from their operations.

Landmark reported third quarter results on November 4th. Adjusted FFO per unit came in at $0.31, up slightly from $0.32 in the year-ago quarter. The company reported Q3 rental revenue of $14.2 million, up 10% compared to last year's $12.9M and beating the average analyst estimate of $13.5 million. Meanwhile, adjusted EBITDA stood at $15.2 million this year, down compared to $15.6M a year ago. The company has also acquired 14 assets for a total consideration of ~$133M which were accretive to AFFO.

Growth on a Per-Unit Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	---	---	---	---	$0.25	$1.36	$1.26	$1.26	$1.34	$1.29	***$1.00***	***$1.13***
DPU	---	---	---	---	---	$1.06	$1.33	$1.42	$1.47	$1.47	***$1.00***	***$1.00***
Units[3]	---	---	---	---	7.8	10.7	17.1	22.8	25.0	25.3	***25.3***	***25.3***

The company chooses to show AFFO/unit using diluted shares, but since full dilution has now occurred, basic equals diluted. As is apparent from the table, growth in cash flow per unit has been non-existent, and the dividend paid has generally been in excess of the distributable cash flow.

The company should have exciting growth opportunities going forward given the nationwide roll out of 5G – which will require densification of existing cell tower networks. That said, we expect that the coronavirus outbreak will have a negative impact on their business, and management has prudently cut their dividend to preserve liquidity.

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[1] Estimate

[2] Estimate

[3] Average Weighted Unit count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCFU	---	---	---	---	---	11.6	11.9	13.2	11.1	13.2	***10.7***	***11.0***
Avg. Yld.	---	---	---	---	---	6.7%	8.9%	8.5%	9.9%	8.6%	***9.3%***	***8.0%***

The current multiple is lower than its average of 11.9, which is probably a bit higher than is warranted for this business. We are reducing our fair value estimate from 12 to 11 in order to account for headwinds and uncertainty from the coronavirus outbreak. We think only a slight reduction is necessary because Landmark – despite being leveraged – is a relatively stable and mostly recession-proof business. At its current multiple of 10.7, we believe shares are roughly fairly valued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	78%	105%	112%	110%	114%	***100%***	***88%***

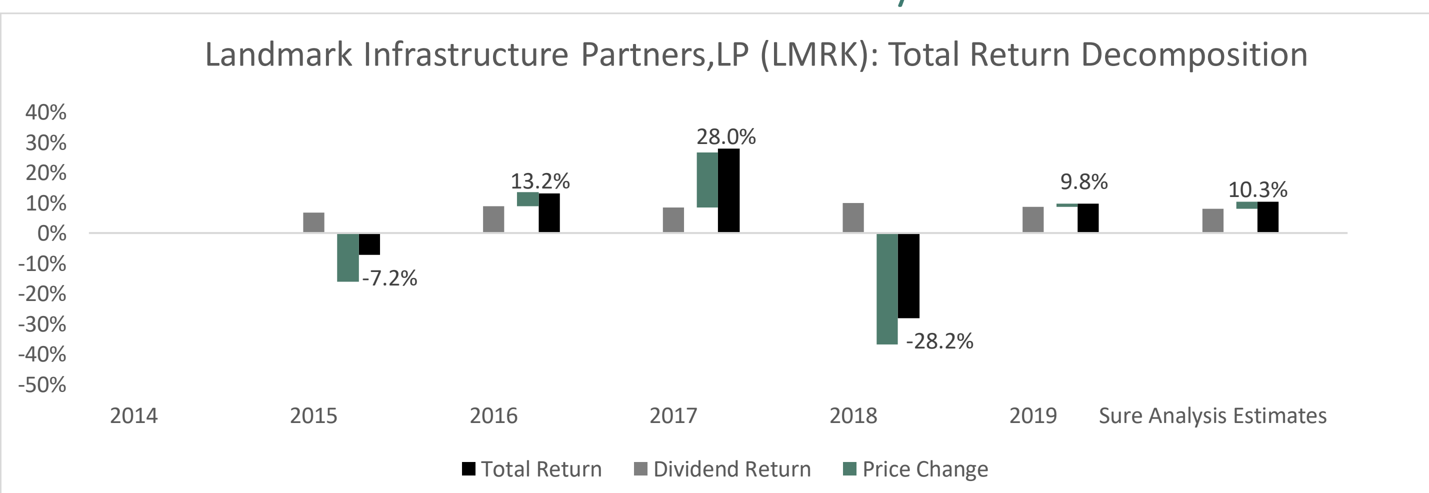
Payout ratios have been in excess of 100% for this company other than their first year of paying dividends. This is generally not a good place to be. We do note however that they are not egregiously in excess of 100%, and that their underlying business model is the very essence of stability. The company's D/E ratio is quite low at 0.68X, but their Debt/EBITDA is a more concerning 3.5X.

LMRK should be reasonably recession proof, for several reasons. Firstly, 65% of revenues come from wireless carriers and renewable energy. These industries should be relatively unimpacted by a recession; people still need energy and the 5G rollout will continue. These are not only the sustaining components of the LMRK's business, they are also the growth drivers. Secondly, about 75% of their leases have a term beyond ten years.

Final Thoughts & Recommendation

Landmark offers investors an attractive 9.3% dividend yield and 10.3% expected annualized total returns for the next half decade thanks to its stable triple-net lease infrastructure cash flows. Management had historically struggled to cover its dividend payout and the challenges from the coronavirus this year finally forced them to cut it. However, there is plenty of insider alignment in the common shares and therefore we are comfortable recommending this high-quality portfolio of assets as a buy now that the dividend has been cut to a more sustainable level.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue			7	17	25	34	41	53	65	59
Gross Profit			7	17	25	34	41	52	64	57
Gross Margin			99.6%	100%	99.9%	99.9%	99.7%	99.3%	98.2%	96.7%
SG&A Exp.			0	1	2	3	4	5	5	6
D&A Exp.			1	4	5	7	10	12	15	13
Operating Profit			5	12	17	22	26	33	43	38
Operating Margin			72.6%	67.0%	68.7%	64.0%	63.0%	63.5%	66.0%	63.3%
Net Profit			2	-	(3)	1	10	19	115	21
Net Margin			22.4%	0.0%	-10.7%	2.2%	23.7%	35.7%	178%	35.0%
Distr. Cash Flow			4	10	15	7	(57)	4	15	19
Income Tax							-	(3)	0	4

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets			134	186	305	486	603	768	787	856
Cash & Equivalents			25	1	0	2	3	9	4	7
Accounts Receivable			0	0	0	1	2	4	4	5
Goodwill & Int. Ass.			3	4	8	13	16	18	21	24
Total Liabilities			74	99	156	328	359	514	402	486
Accounts Payable			1	1						
Long-Term Debt			67	89	142	307	337	491	379	450
Partner's Equity			59	87	149	157	244	254	385	369
D/E Ratio			1.13							

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets				0.0%	-1.1%	0.2%	1.8%	2.7%	14.8%	2.5%
Return on Equity				0.0%	-2.3%	0.5%	4.9%	7.5%	36.0%	5.5%
ROIC				0.0%	-2.3%	0.3%	3.0%	4.5%	26.4%	5.0%
Shares Out.					7.8	10.7	17.1	22.8	25.0	25.3
Revenue/Share			0.87	2.22	2.29	2.43	2.03	2.03	2.37	2.34
DCF/Share			0.49	1.26	1.35	0.51	(2.79)	0.14	0.56	0.74

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