



National Retail Properties (NNN)

Updated November 11th, 2020 by Samuel Smith

Key Metrics

Current Price:	\$40.4	5 Year CAGR Estimate:	5.6%	Market Cap:	\$6.7B
Fair Value Price:	\$36.8	5 Year Growth Estimate:	2.7%	Ex-Dividend Date:	1/29/21 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Dividend Payment Date:	2/16/21 ²
Dividend Yield:	5.1%	5 Year Price Target	\$42	Years of Dividend Growth:	30
Dividend Risk Score:	C	Retirement Suitability Score:	B	Last Dividend Increase:	1%

Overview & Current Events

National Retail Properties is a REIT that owns ~3,000 single-tenant, net-leased retail properties across the United States. It is focused on retail customers because they are much more likely to accept rent hikes in order to avoid switching locations and losing their customer base. Thanks to this strategy, National Retail has offered consistent growth with markedly low volatility. It is also characterized by very high occupancy rates; its 15-year low occupancy rate is 96%, while its current rate is 98.8%. National Retail has increased its dividend for 30 consecutive years (a record matched by only three publicly traded REITs), making it a member of the Dividend Champions.

National Retail reported Q3 earnings on 11/2/20. FFO-per-share came in at \$0.62, missing the average analyst estimate of \$0.66 per share and falling from \$0.70 in the year-ago quarter. Revenue came in at \$158.6 million, a decline from \$168.2M in the year-ago quarter. Portfolio occupancy stood at 98.4% as of quarter end compared to 98.7% in June and 98.8% in March. The trust reported that it had collected ~90% of rent due for the quarter and ~94% of rent originally due in October. The trust also reported that it had entered rent deferral lease amendments with tenants representing ~6% of annual rent originally due for the year. On average, 2.7 months of rent was deferred, ~77% of the deferred rent originally due in Q2 and 23% originally due in Q3. Meanwhile, Q3 operating expenses of \$70.9M fell from \$74.5M in the same year-ago period.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	\$1.31	\$1.57	\$1.74	\$1.93	\$2.08	\$2.22	\$2.41	\$2.52	\$2.68	\$2.76	\$2.63	\$3.00
DPS	\$1.51	\$1.53	\$1.56	\$1.60	\$1.65	\$1.71	\$1.78	\$1.86	\$1.95	\$2.06	\$2.08	\$2.30
Shares³	83	89	109	120	125	134	145	149	160	165	165	190

National Retail Properties has more than doubled its FFO since 2008, but it has also doubled its share count in order to fund its acquisitions of properties. As a result, the REIT has grown its FFO per share by only 5.8% per year on average since 2009. While the impact of dilution is noticeable, the dilution also has another, less obvious effect; it has greatly increased the financial burden of the dividend on the REIT. For instance, while the dividend per share has grown only 16% since 2013, the total amount that the REIT spends on dividends has jumped 45%.

National Retail Properties has grown its FFO per share at a 6.8% average annual pace in the last five years, but we believe that growth will slow moving forward as investment spreads compress, and the law of large numbers makes it increasingly challenging to move the needle with acquisitions. The trust's high level of occupancy should afford it low-single-digit levels of revenue growth, while slightly increasing margins should continue to see it growing FFO-per-share despite the ever-rising share count. The bulk of National Retail's FFO-per-share growth will come from net new property acquisitions, which it is well-positioned to execute upon with its recent capital raises. We expect some headwinds this year from the coronavirus outbreak, but assume that the company will bounce back fairly well in the years to come.

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.



National Retail Properties (NNN)

Updated November 11th, 2020 by Samuel Smith

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	11.7	13.6	14.9	13.2	16.4	15.4	16.7	14.8	16.1	19.2	15.4	14.0
Avg. Yld.	6.4%	6.0%	5.4%	4.7%	4.6%	4.4%	3.8%	4.4%	4.5%	3.9%	5.1%	5.5%

Using expected 2020 FFO numbers, National Retail Properties is trading at a price-to-FFO ratio of 15.4, which is the lowest it has been in years, even as its growth is slowing to a crawl due to cap rate compression. The trust's 10-year average price-to-FFO ratio is 13.8, and, while recent multiples have been far higher due to low interest rates and strong results, we believe that current headwinds justify a lower valuation. Therefore, we are placing 14 times FFO as our fair value estimate. Accordingly, we believe that multiple compression will provide a modest headwind to the trust's total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

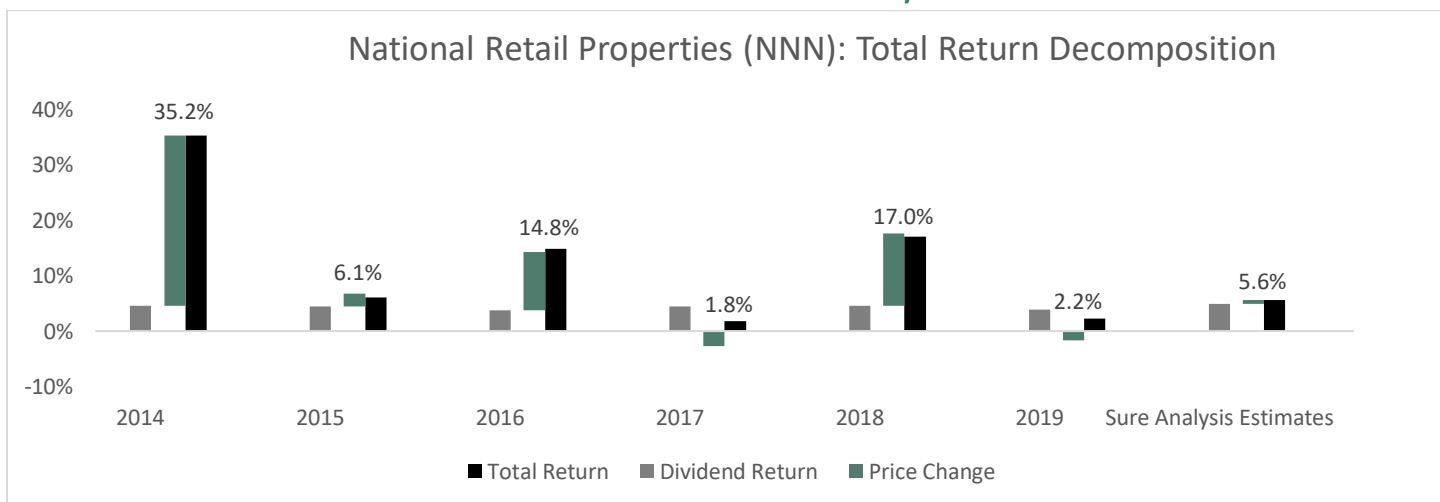
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	115%	98%	90%	83%	79%	70%	74%	74%	73%	75%	79%	77%

National Retail's payout ratio is being maintained under three-quarters of FFO, and we believe it will stay there for the foreseeable future. Given this, the dividend is fairly safe at this point with the trust's rising earnings. On the other hand, National Retail Properties is significantly impacted by recessions. In the Great Recession, its funds from operations per share plunged 34%, from \$1.99 in 2008 to \$1.31 in 2010. Nevertheless, given that the financial crisis was triggered by the bubble in the housing market, the performance of the REIT in that crisis was satisfactory. However, investors should keep in mind that its downside potential will be significant whenever the next recession shows up, particularly given its current valuation. The trust lacks any durable competitive advantages, though its scale and business network are gradually growing over time, which could give it increasing pricing power and economies of scale.

Final Thoughts & Recommendation

National Retail Properties is a fairly attractive dividend growth stock at current market pricing. On the one hand, it offers investors an attractive 5.1% dividend yield backed by a strong balance sheet and a very impressive dividend growth history. On the other hand, it only offers estimated 5.6% annualized total returns over the next half decade. As a result, we rate it a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



National Retail Properties (NNN)

Updated November 11th, 2020 by Samuel Smith

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	255	304	352	394	435	483	534	585	623	670
Gross Profit	242	287	334	375	416	463	513	562	598	643
Gross Margin	94.8%	94.4%	95.0%	95.3%	95.6%	95.9%	96.1%	96.0%	96.0%	95.9%
SG&A Exp.	23	29	32	31	33	35	37	34	34	38
D&A Exp.	49	59	75	100	116	135	149	174	174	189
Operating Profit	141	158	210	245	267	294	327	354	389	416
Operating Margin	55.1%	52.2%	59.7%	62.2%	61.5%	60.8%	61.3%	60.6%	62.5%	62.1%
Net Profit	73	92	142	160	191	198	240	265	292	299
Net Margin	28.6%	30.4%	40.4%	40.7%	43.8%	41.0%	44.9%	45.3%	47.0%	44.6%
Free Cash Flow	188	178	228	274	297	341	415	422	472	502
Income Tax	0	1	(7)	0	(0)	10				

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2,714	3,435	3,988	4,455	4,916	5,460	6,334	6,561	7,103	7,435
Cash & Equivalents	2	2	2	1	11	14	295	1	114	1
Accounts Receivable		3	3	4	3	3	3	4	4	3
Goodwill & Int. Ass.		38	45	70	78	72	65	51	66	76
Total Liabilities	1,185	1,431	1,690	1,676	1,832	2,118	2,417	2,720	2,949	3,103
Long-Term Debt	1,134	1,339	1,587	1,570	1,730	1,976	2,312	2,580	2,851	2,988
Shareholder's Equity	1,435	1,910	2,009	2,202	2,508	2,767	2,997	3,208	3,522	3,987
D/E Ratio	0.74	0.67	0.69	0.57	0.56	0.59	0.59	0.67	0.69	0.69

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.8%	3.0%	3.8%	3.8%	4.1%	3.8%	4.1%	4.1%	4.3%	4.1%
Return on Equity	5.0%	5.5%	7.2%	7.6%	8.1%	7.5%	8.3%	8.5%	8.7%	8.0%
ROIC	2.8%	3.1%	3.9%	3.9%	4.2%	3.9%	4.1%	4.2%	4.4%	4.2%
Shares Out.	83	89	109	120	125	134	145	149	160	165
Revenue/Share	3.08	3.42	3.22	3.28	3.49	3.59	3.69	3.91	3.98	4.06
FCF/Share	2.27	2.00	2.09	2.29	2.38	2.54	2.87	2.82	3.02	3.04

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.