



Gladstone Land Corporation (LAND)

Updated December 3rd, 2020 by Josh Arnold

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	6.3%	Market Cap:	\$348 M
Fair Value Price:	\$13	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/22/20
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	12/31/20
Dividend Yield:	3.7%	5 Year Price Target	\$17	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	D	Last Dividend Increase:	0.2%

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 123 farms, comprising nearly 93,000 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 \$971 million, and the stock trades with a market capitalization of \$348 million. The trust went public in early 2013.

Gladstone reported third quarter earnings on November 4th, 2020 with results coming in strong against expectations. Net income for the quarter was \$1.6 million, up from \$182k in Q2. Adjusted FFO was \$3.1 million, an increase of \$1 million, or 44% from the prior quarter, and up from \$0.10 per share to \$0.14. The boost was primarily attributable to higher lease revenues, partially offset by an increase in certain operating expenses.

Total lease revenue was up by \$1.4 million, or 11%, driven by participation rents recorded of \$1.1 million, up from essentially nothing in the prior quarter. Fixed base cash rents were also up 3.9% quarter over quarter.

NAV per share rose \$0.91 in Q3 to end the quarter at \$11.97. The trust attributed the NAV increase to re-appraised farm values during the quarter. Our estimate for this year moved down one penny to \$0.67 in AFFO per share following Q3 results. Gladstone also boosted the dividend fractionally once again.

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	\$0.86
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 5% 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 3.7%. 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, which it has struggled to accomplish. We see this as continuing for the foreseeable future unless it finds a cheaper way

¹ Share count 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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to fund acquisitions. We note recent financing activity has been completed at more favorable rates, which should help boost the trust's margins further in the years to come.

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.

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	21.9	20.0
Avg. Yld.	---	---	---	7.2%	2.9%	4.6%	4.9%	4.2%	4.2%	4.4%	3.7%	3.3%

Gladstone's price-to-AFFO has been very high in recent years and sits at 21.9 today. We see fair value, given its low projected growth and maxed out dividend, at 20 times AFFO. That implies a modest annual headwind to total returns should the stock revert to this valuation.

The yield is 3.7% today and we see it as remaining around there for the foreseeable future, as small increases could be offset by a slightly rising share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

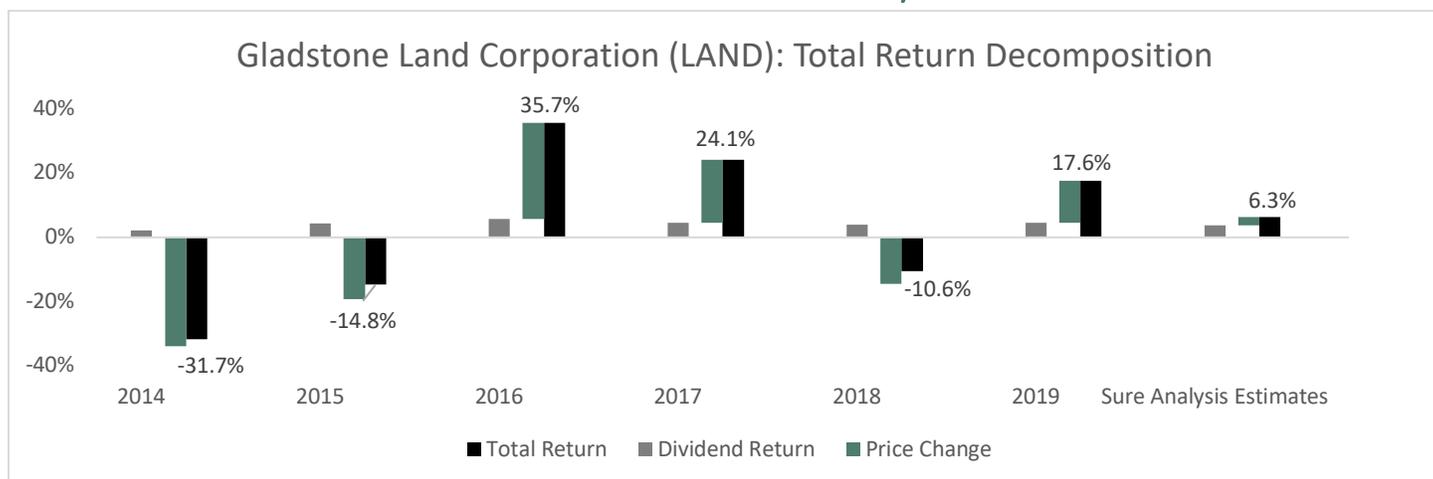
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	144%	118%	93%	93%	104%	93%	80%	66%

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 too expensive, and growth too low, to consider a buy rating. We see total annual returns of 6.3%, 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 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	---	---	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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