Landmark Infrastructure Partners, LP (LMRK)

Updated March 12th, 2021 by Samuel Smith

Key Metrics

Current Price:	$13	**5 Year CAGR Estimate:**	11.0%	**Market Cap:**	$317.1M
Fair Value Price:	$16	**5 Year Growth Estimate:**	2.6%	**Ex-Dividend Date:**	05/01/21[1]
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.6%	**Dividend Payment Date:**	05/12/21[2]
Dividend Yield:	6.2%	**5 Year Price Target**	$18	**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, power companies for their renewable energy units, and data storage businesses for their data centers. 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 most of its revenues from so-called tier 1 tenants (large publicly traded companies with national footprints).

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 fourth quarter results on February 24th. Adjusted FFO per unit came in at $1.36, up 12% from the year-ago quarter. The company reported Q4 rental revenue of $16.9 million, up 22% compared to last year's $13.9M. Meanwhile, adjusted EBITDA stood at $17.3 million this year, up compared to $16.4M a year ago. The partnership has also acquired 15 assets for a total consideration of ~$148M which were accretive to AFFO. Meanwhile, Landmark deployed 138 digital kiosks within the Dallas Area Rapid Transit (DART) network and reported a $0.20 quarterly distribution per common unit.

Growth on a Per-Unit Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	$0.25	$1.36	$1.26	$1.26	$1.34	$1.29	$1.36	***$1.41***	***$1.60***
DPU	---	---	---	---	$1.06	$1.33	$1.42	$1.47	$1.47	$0.97	***$0.80***	***$0.90***
Units[3]	---	---	---	8	15	23	23	25	25	26	***26***	***28***

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.

[1] Estimate

[2] Estimate

[3] Average Weighted Unit count is in millions.

Disclosure: This analyst does not have a position in the security discussed in this research report, and does not intend to acquire one in the next 72 hours.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFU	---	---	---	---	11.6	11.9	13.2	11.1	13.2	10.7	***9.2***	***11.0***
Avg. Yld.	---	---	---	---	6.7%	8.9%	8.5%	9.9%	8.6%	9.3%	***6.2%***	***5.1%***

The current multiple is lower than its average of ~12x, 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 recent management underperformance which prompted them to cut their distribution during the COVID-19 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 9.2, we believe shares are undervalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	78%	105%	112%	110%	114%	71%	***56.7%***	***56.2%***

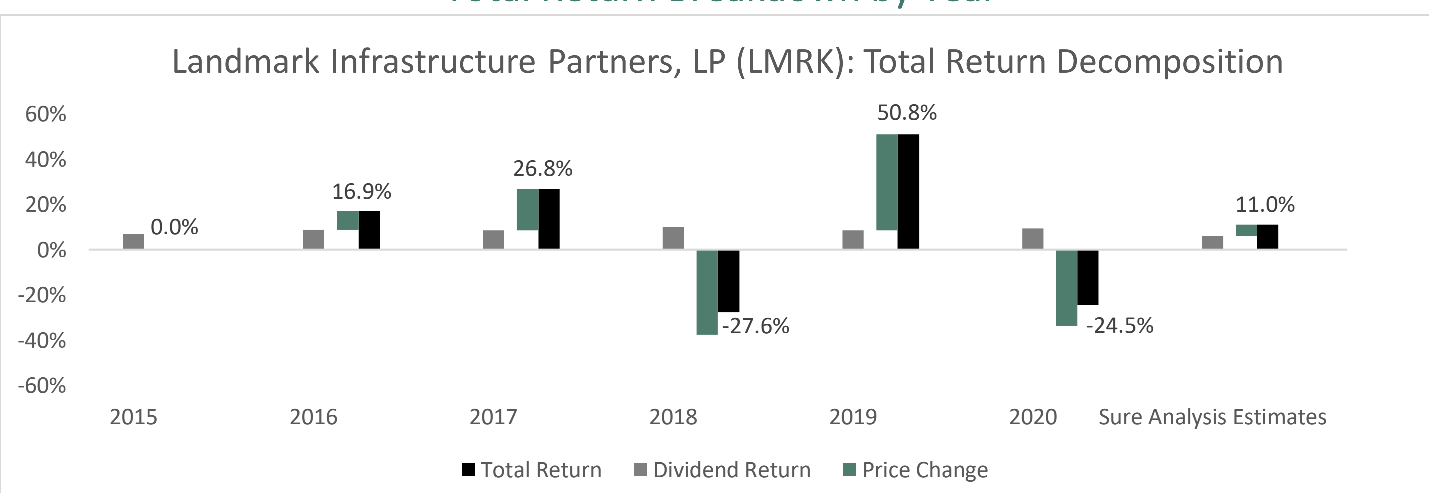
Payout ratios have traditionally been above 100% for this company other than their first year of paying dividends. This is generally not a good place to be. In 2020, however, management slashed the distribution in order to help keep leverage under control and enable the company to grow without having to issue equity at an unattractive multiple.

LMRK should be reasonably recession proof given that its assets are mission-critical with very conservative lease terms (lengthy terms and triple net lease structure) attached to them. Furthermore, the industries it serves should be relatively unimpacted by a recession, as people will always need energy, the 5G rollout will continue, advertising on billboards is a stable business through cycles, and data centers are in high demand as the global economy becomes increasingly digitized.

Final Thoughts & Recommendation

Landmark offers investors an attractive 6.2% dividend yield and 11% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		7	17	25	34	41	53	61	54	59
Gross Profit		7	17	25	34	41	52	61	52	57
Gross Margin		99.6%	100.0%	99.9%	99.9%	99.7%	99.3%	98.6%	97.3%	96.8%
SG&A Exp.		0	1	2	3	4	5	5	5	5
D&A Exp.		1	4	6	9	11	14	16	14	17
Operating Profit		5	12	17	22	26	33	40	34	36
Operating Margin		72.6%	67.0%	68.7%	64.0%	63.0%	63.5%	65.4%	62.5%	60.8%
Net Profit		2	-	(3)	1	10	19	116	22	29
Net Margin		22.4%	0.0%	-10.7%	2.2%	24.0%	36.6%	188.6%	40.2%	49.4%
Distr. Cash Flow		4	10	15	7	(57)	4	15	19	33
Income Tax						-	(3)	0	3	(0)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets		134	186	305	486	603	768	787	856	895
Cash & Equivalents		25	1	0	2	3	9	4	6	10
Accounts Receivable		0	0	0	1	2	4	4	4	4
Goodwill & Int. Ass.		3	4	8	13	16	18	21	22	19
Total Liabilities		74	99	156	328	359	514	449	534	571
Accounts Payable		1	1							
Long-Term Debt		67	89	142	307	337	491	379	397	494
Partner's Equity		59	87	149	157	244	254	337	321	323
D/E Ratio		1.13								

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets			0.0%	-1.1%	0.2%	1.8%	2.8%	14.9%	2.6%	3.3%
Return on Equity			0.0%	-2.3%	0.5%	4.9%	7.7%	39.1%	6.5%	9.0%
ROIC			0.0%	-2.3%	0.3%	3.1%	4.6%	26.6%	5.6%	6.5%
Shares Out.					8	15	23	23	25	25
Revenue/Share		0.87	2.22	2.29	2.43	2.03	2.03	2.25	2.12	2.31
DCF/Share		0.49	1.26	1.35	0.51	(2.79)	0.14	0.56	0.74	1.30

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