



Agree Realty Corp. (ADC)

Updated June 3rd, 2021 by Felix Martinez

Key Metrics

Current Price:	\$72	5 Year CAGR Estimate:	5.5%	Market Cap:	\$4.6 B
Fair Value Price:	\$62	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	06/27/21 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	07/12/21
Dividend Yield:	3.6%	5 Year Price Target	\$79	Years Of Dividend Growth:	10
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	4.8%

Overview & Current Events

Agree Realty Corp. (ADC) is an integrated real estate investment trust (REIT) focused on ownership, acquisition, development, and retail property management. Richard Agree founded Agree Development Company in 1971, which is the predecessor to Agree Realty Corporation. Agree has developed over 40 community shopping centers throughout the Midwestern and Southeastern United States. At the end of the fiscal year 2020, the Company owned and operated 1,129 properties located in 46 states, containing approximately 23 million square feet of gross leasable space. The Company's business objective is to invest in and actively manage a diversified portfolio of retail properties net leased to industry tenants. Agree Realty has a market capitalization of \$4.6 billion, and the Company has been paying a growing dividend for ten consecutive years.

On May 3rd, 2021, Agree Realty Corp. reported first-quarter results for Full Year (FY)2020 results. The Company invested \$391 million in 90 retail net lease properties. Adjusted Funds from Operations (AFFO) increased 2.3% from \$0.81 per share to \$0.83 per share. Net income for the quarter increased 41.8% to \$30.1 million, compared to \$21.2 million for the comparable period in 2020. Core FFO per share for the quarter increased 3.0% to \$0.84, compared to Core FFO per share of \$0.82 for 1Q20.

Last quarter ADC management team announced that it would move from quarterly dividend payments to monthly payments. In Q1, the Company announced that it will increase its monthly dividend from \$0.207 to now \$0.217, which is an increase of 4.8%. The dividend increase is right in line with our expectations. Furthermore, 99.4% of Agree's portfolio is leased, with a weighted-average remaining lease term of about 9.8 years.

On February 25th, 2021, The Company agreed to purchase 15 ground leases with Kite Realty Group for \$36.6 million. The agreement also expects to close two more ground leases for \$5.2 million in a few months.

We anticipate that Agree Realty could earn \$3.44 in AFFO per share for FY2021, which would be a 7.5% increase compared to FY2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	\$2.20	\$2.08	\$2.13	\$2.22	\$2.38	\$2.51	\$2.70	\$2.83	\$3.02	\$3.20	\$3.44	\$4.39
DPS	\$1.60	\$1.60	\$1.64	\$1.74	\$1.85	\$1.92	\$2.03	\$2.15	\$2.28	\$2.40	\$2.54	\$3.24
Shares²	10.0	11.0	13.0	15.0	18.0	23.0	28.0	32.0	41.0	52.0	52.0	52.0

Agree Realty has grown AFFO by a compound rate of 4.3% over the past ten years. However, over the past five years, AFFO has increased by 6.5% per year. We expect that Agree Realty will continue to grow but at a slightly slower pace of 5% annually for the next five years. Current growth prospects stem from the recent acquisitions announced in February. The Company has a 9-year dividend growth rate of 4.6%. Although, it has been improving over the past five years with a growth rate of 5.8%. We predict that Agree Realty will continue to grow its dividend at a rate of 5% for the foreseeable future. However, there is room in the dividend payout ratio for more significant increases.

¹ Ex-Dividend Date and Dividend Payment Date are estimates.

² Share count is 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	11.1	12.9	13.6	14.0	14.3	18.4	19.1	20.9	23.2	20.8	20.8	18.0
Avg. Yld.	6.6%	6.0%	5.7%	5.6%	5.4%	4.2%	3.9%	3.7%	3.3%	3.6%	3.6%	4.1%

The Company's average price to AFFO ratio over the past nine years has been 16.8. We believe 18 times AFFO is a reasonable valuation multiple. Still, with shares trading at 20.8 times AFFO, this implies a modest valuation headwind. Due to the higher P/AFFO, the dividend yield has been slowly decreasing over the years. In 2011, the dividend yield was as high as 6.6%. Now Agree Realty's dividend yield is 3.6%, also implying moderate overvaluation compared to the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

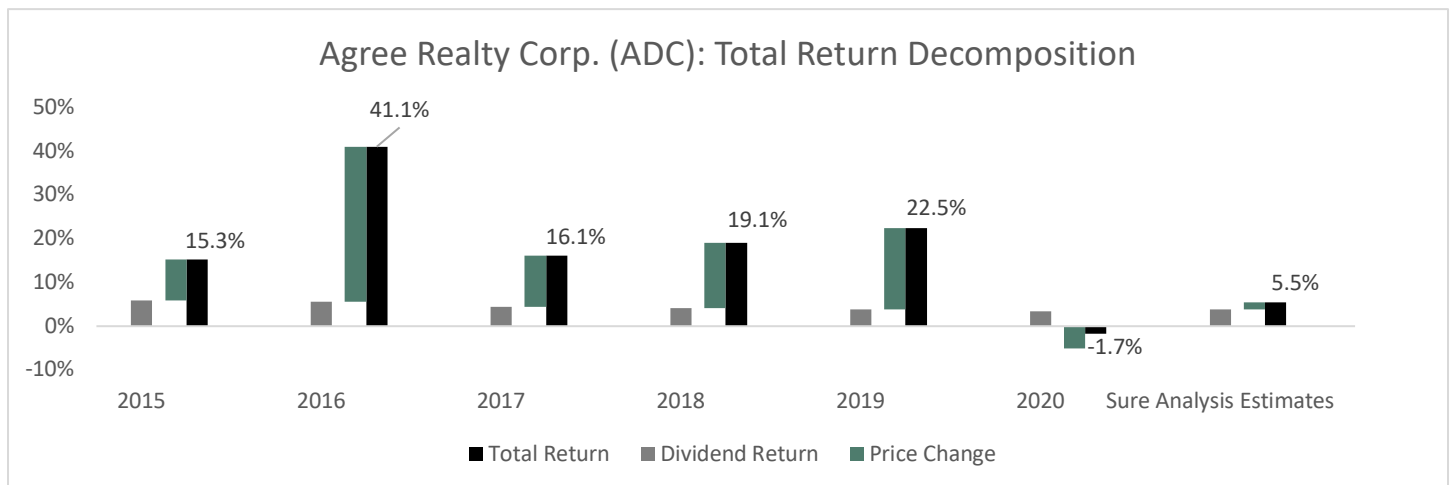
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	72.7%	76.9%	77.0%	78.4%	77.7%	76.5%	75.2%	76.0%	75.5%	75.0%	74%	74%

Agree Realty Corp's most important competitive advantage is the management team. During the last recession, AFFO grew by 5% in 2008 and by 11% in 2009. During the COVID-19 pandemic, Agree Realty continued to pay out its dividend and increased it by 3% in December. As we noted above, Agree Realty increased AFFO by 5.9% in 2020. This speaks volumes regarding Agree Realty's resilience. Agree Realty also has a solid balance sheet. The Company has a BBB credit rating from S&P and a debt-to-equity ratio of 0.5. Agree Realty has \$4.3 billion in assets and only \$1.5 billion in total liabilities, which gives it a ratio of 3.4.

Final Thoughts & Recommendation

Agree Realty Corp. is a high-quality company with a relatively high P/AFFO ratio over the past five years. There is minimal risk, consider that Agree Realty has an outstanding balance sheet, and the company was able to go through the COVID-19 pandemic with minimal hiccups. However, the company is slightly overvalued at today's price, in our view. We estimate a 5-year annual return of 5.5% going forward, stemming from 5% growth and the 3.6% dividend yield, offset by a slight valuation headwind. Shares earn a hold rating at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	30	35	44	54	70	92	112	137	187	249
Gross Profit	27	31	40	49	64	83	99	120	164	217
Gross Margin	88.5%	90.4%	91.6%	90.8%	90.9%	90.6%	88.8%	87.6%	87.5%	87.2%
SG&A Exp.	6	6	6	7	7	8	9	12	16	21
D&A Exp.	7	8	9	11	16	23	32	44	59	83
Operating Profit	16	19	25	31	40	52	63	75	103	129
Operating Margin	52.6%	56.0%	58.4%	57.7%	57.3%	56.4%	56.5%	54.9%	54.8%	52.0%
Net Profit	10	18	20	18	39	45	58	58	80	91
Net Margin	31.6%	52.1%	45.2%	34.5%	55.8%	49.3%	52.1%	42.4%	42.7%	36.8%
Free Cash Flow	25	21	29	35	45	62	82	93	127	143
Income Tax	---	---	---	---	---	0	0	1	1	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	294	370	463	594	790	1,142	1,495	2,028	2,665	3,886
Cash & Equivalents	2	1	15	5	3	33	51	54	16	6
Accounts Receivable	1	2	3	5	7	12	15	22	27	38
Goodwill & Int. Ass.	16	21	28	47	77	140	195	280	344	474
Total Liabilities	132	172	171	238	336	456	583	790	973	1,360
Accounts Payable	4	2	3	3	3	6	11	21	49	71
Long-Term Debt	119	161	158	222	317	401	520	720	872	1,218
Shareholder's Equity	160	195	290	354	451	683	909	1,236	1,689	2,524
D/E Ratio	0.75	0.82	0.55	0.63	0.70	0.59	0.57	0.58	0.52	0.48

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.3%	5.4%	4.7%	3.5%	5.6%	4.7%	4.4%	3.3%	3.4%	2.8%
Return on Equity	5.9%	10.2%	8.1%	5.7%	9.7%	8.0%	7.3%	5.4%	5.5%	4.3%
ROIC	3.5%	5.6%	4.9%	3.6%	5.8%	4.9%	4.6%	3.4%	3.5%	2.9%
Shares Out.	10.0	11.0	13.0	15.0	18.0	23.0	28.0	32.0	41.0	52.0
Revenue/Share	3.13	3.11	3.31	3.58	3.87	3.99	4.03	4.23	4.55	4.74
FCF/Share	2.63	1.90	2.24	2.34	2.47	2.69	2.97	2.88	3.07	2.73

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

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