Four Corners Property Trust, Inc. (FCPT)

Updated July 1st, 2021 by Felix Martinez

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	9.9%	**Market Cap:**	$2.10 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	06/29/21
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	07/15/21
Dividend Yield:	4.6%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.10%

Overview & Current Events

Four Corners Property Trust was formed after a spin-off from Darden Restaurants, Inc (DRI), which was announced in November 2015. Four Corners Property Trust commenced trading on November 10, 2015, on the New York Stock Exchange under the symbol FCPT. FCPT has become an independent, public trust that intends to elect and qualify to be treated as a real estate investment trust (REIT) effective January 1, 2016. FCPT, headquartered in Mill Valley, CA, is a real estate investment trust primarily engaged in acquiring and leasing restaurant properties. The Trust seeks to grow its portfolio by acquiring additional real estate to lease, on a net basis, for use in the restaurant and retail industries. Currently, the Trust has a four-year dividend growth history and a market capitalization of $2.10 billion.

On April 27, 2021, FCPT reported first-quarter 2021 financial and operating results. During the quarter, the Trust received rent payments representing 99.7% of its portfolio. Overall, rental revenue increased 10% over 1Q20. Rental revenue was $37.7 million in the first quarter of Fiscal Year (FY)2020 to now $41.5 million. Operating expenses increased year over year to $18.9 million this quarter from $16 million. Increased operating costs were primarily driven by depreciation and amortization as well as general and administrative. Net income for the quarter was up 6.7% vs. the prior-year quarter. Net income was $20.6 million for the first quarter or $0.27 per diluted share. These results compare to net income attributable to common shareholders of $19.3 million in the prior year, or $0.27 per diluted share.

On a Funds from Operation (FFO) front, the FCPT earned $0.37 per share, representing a flat per share result compared to the first quarter in 2020. However, Adjusted Funds from Operation (AFFO), the Trust made $0.38, which is an increase of $0.01 per share vs. 1Q20.

FCPT acquired 13 properties for a combined purchase price of $33.9 million during the quarter with a weighted average remaining lease term of 9.9 years. However, the Trust had sold two properties for a combined purchase price of $3.5 million.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2026
FFO	$1.22	$1.29	$1.36	$1.39	$1.44	***$1.54***	***$1.97***
DPS	$1.17	$1.00	$1.11	$1.17	$1.23	***$1.28***	***$1.48***
Shares[1]	60.0	61.0	64.0	69.0	72.0	***73.0***	***76.0***

The most significant growth prospects from FCPT will be the continuation of profitable acquisitions in the future. The Trust does not have a long history of FFO growths, but FCPT had grown FFO at a Compound Annual Growth Rate (CAGR) of 4.8% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend or FFO decreased for the year. However, FCPT increased earnings by 4% from 2019 to 2020. We expect FCPT to continue to grow FFO at a 5% CAGR for the next five years. This means that we expect the Trust to make $1.97 per share in 2026.

The dividend has been growing steadily, with a five-year average growth rate of 1.8%. We think that the Trust will start raising its dividend at a slightly higher pace of 3% for the next five years.

[1] Share count is in millions.

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Valuation Analysis

Year	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.8	19.9	19.3	20.3	20.7	***17.9***	***19.0***
Avg. Yld.	5.7%	3.9%	4.3%	4.1%	4.1%	***4.6%***	***4.0%***

FCPT currently trades hands with a 17.9x FFO which is a little lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 19.4x FFO. Thus, we think a multiple of 19x FFO is fair for FCPT. This will provide a 1.2% tailwind expansion over the next five years. The current dividend yield of 4.6% is slightly higher than its five-year average of 4.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2026
Payout	95.9%	77.5%	81.6%	84.2%	85.4%	***83%***	***76%***

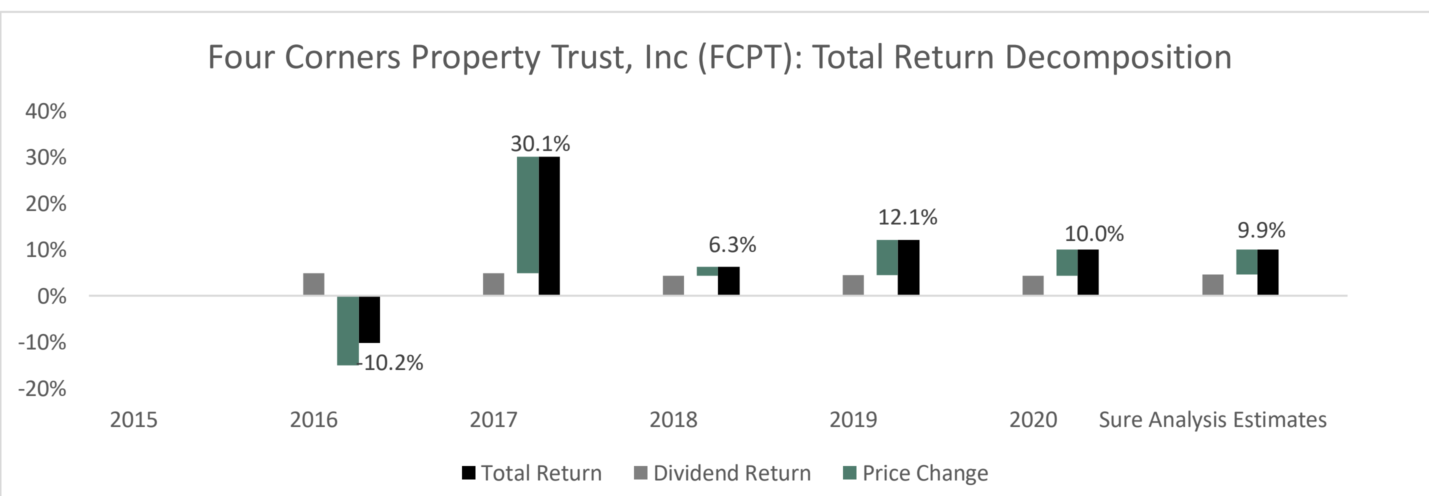
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, comparing favorably to the ~65% operating margins of most shopping center REITs. FCPT does not have a long history, but the Trust held steadfast during the COVID-19 pandemic. From 2019 and to the end of 2020, revenue grew 6.9%, and FFO increased 4%. This speaks volumes as most retail REITs struggle mightily during the pandemic. Also, FCPT did not have to cut its dividend. As a matter of fact, the Trust increased its dividend by 4% in December 2020.

FCPT had a good balance sheet. The Trust has an interest coverage ratio of 3.6 and a debt to equity ratio of 0.9. The Trust currently has $11.5 million cash on hand. The dividend payment is in line with other REITs paying out 83% of its FFO. We expect the payout to be in the 80% area for the foreseeable future as FFO grows.

Final Thoughts & Recommendation

FCPT is a well-run retail REIT with a good balance sheet. The Trust went through the COVID-19 pandemic like it was not even there. The Trust looks to be slightly undervalued, with an expected total return for the next five years to be 9.9%. However, we think that an attractive price would be under $26, which would give an investor and higher expected five-year return. Thus, we give FCPT a Hold rating at the current price.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		17	17	18	33	124	133	144	160	171
Gross Profit		3	1	1	16	106	114	124	139	151
Gross Margin		17.3%	4.6%	4.3%	49.2%	85.6%	85.8%	86.5%	86.8%	88.5%
SG&A Exp.		2		-	2	11	12	13	14	15
D&A Exp.		1	1	1	4	21	22	24	26	29
Operating Profit		(0)	(0)	(0)	11	75	80	87	99	107
Operating Margin		-1.1%	-0.6%	-0.6%	32.4%	60.2%	60.4%	60.6%	61.6%	62.5%
Net Profit		(0)	0	0	6	157	71	82	73	77
Net Margin		-0.2%	0.2%	0.2%	17.0%	126%	53.6%	57.4%	45.3%	45.2%
Free Cash Flow		1	1	1	22	71	79	81	105	91
Income Tax		(0)	(0)	(0)	3	(80)	(0)	0	0	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			13	12	929	937	1,069	1,343	1,446	1,668
Cash & Equivalents			0	0	98	27	64	92	5	11
Accounts Receivable					0	0	0	1	0	1
Inventories			0	0	0	0	0	0	0	3
Goodwill & Int. Ass.					-	2	4	19	58	96
Total Liabilities			3	3	488	467	546	644	719	824
Accounts Payable			0	0	1	1	1	1	1	0
Long-Term Debt			-	-	392	439	516	616	670	754
Shareholder's Equity			10	9	442	465	514	691	721	841
D/E Ratio			-	-	0.89	0.94	1.00	0.89	0.93	0.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets			0.3%	1.2%	16.8%	7.1%	6.8%	5.2%	5.0%	
Return on Equity			0.3%	2.5%	34.6%	14.6%	13.7%	10.3%	9.9%	
ROIC			0.3%	1.4%	18.0%	7.3%	7.0%	5.4%	5.2%	
Shares Out.										
Revenue/Share	0.39	0.40	0.42	5.34	2.08	2.19	2.23	2.33	2.39	0.39
FCF/Share	0.02	0.02	0.02	3.46	1.19	1.30	1.26	1.53	1.28	0.02

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

Disclaimer