SL Green Realty Corp. (SLG)

Updated July 23rd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$5.7 B
Fair Value Price:	$85	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	7/29/2021
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Dividend Payment Date:**	8/16/2021
Dividend Yield:	4.9%	**5 Year Price Target**	$108	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

SL Green Realty Corp. (SLG) was formed in 1980. It is an integrated real estate investment trust (REIT) that is focused on acquiring, managing, and maximizing the value of Manhattan commercial properties. It is Manhattan's largest office landlord, with a market capitalization of $5.7 billion, and currently owns 77 buildings totaling 35 million square feet.

In late July, SLG reported (7/21/2021) financial results for the second quarter of fiscal 2021. Its same-store net operating income decreased -2.7% over last year's quarter and its occupancy rate decreased from 94.2% at the end of the previous quarter to 93.6%. Its funds from operations (FFO) per share decreased -6% over the prior year's quarter, from $1.70 to $1.60, but only due to higher lease termination income in last year's quarter. Excluding this factor, FFO per share would have edged up 2%. During the quarter, SLG signed 42 Manhattan office leases at -1.1% lower rates compared to previous leases.

SLG has been significantly affected by the coronavirus crisis, which has hurt several companies that are tenants of SLG. Occupancy of office space in the 10 large cities was just 24% in late March. This has caused an unprecedented tenant-friendly environment and challenges to the business of SLG but we still expect the REIT to recover from the pandemic from next year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	$4.80	$5.28	$5.16	$5.85	$6.38	$8.29	$6.45	$6.62	$6.99	$7.11	***$6.50***	***$8.30***
DPS	$0.55	$1.08	$1.49	$2.10	$2.52	$2.94	$3.14	$3.29	$3.44	$3.54	***$3.64***	***$4.40***
Shares[1]	86.2	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3	***70.0***	***65.0***

SLG benefits from reliable growth in rental rates in one of the most popular commercial areas in the world, Manhattan. The REIT pursues growth by acquiring attractive properties and raising rental rates in its existing properties. It also signs multi-year contracts (7-15 years) with its tenants in order to secure reliable cash flows. SLG has grown its funds from operations per share at a 4.5% average annual rate in the last decade and at a 2.2% annual rate in the last five years. Due to the effect of the pandemic on its business, funds from operations are poised to decrease this year. However, thanks to the massive vaccination program underway, we expect the pandemic to subside later this year. We thus expect SLG to grow its funds from operations per share at a 5.0% average annual rate over the next five years off this year's somewhat low expected level.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	15.2	14.6	17.1	18.2	17.8	12.5	16.1	14.6	12.2	8.3	***11.5***	***13.0***
Avg. Yld.	0.8%	1.4%	1.7%	2.0%	2.2%	2.8%	3.0%	3.4%	4.0%	5.1%	***4.9%***	***4.1%***

[1] In millions.

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SLG has traded at an average price-to-FFO ratio of 14.7 during the last decade. Due to the impact of the pandemic on its business, the REIT is currently trading at a much lower FFO multiple of 11.5. In order to be conservative, we assume a fair price-to-FFO ratio of 13.0. If SLG reaches our fair valuation level in five years, it will enjoy a 2.4% annualized boost to its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	11%	20%	29%	36%	39%	35%	49%	50%	49%	50%	***56%***	***53%***

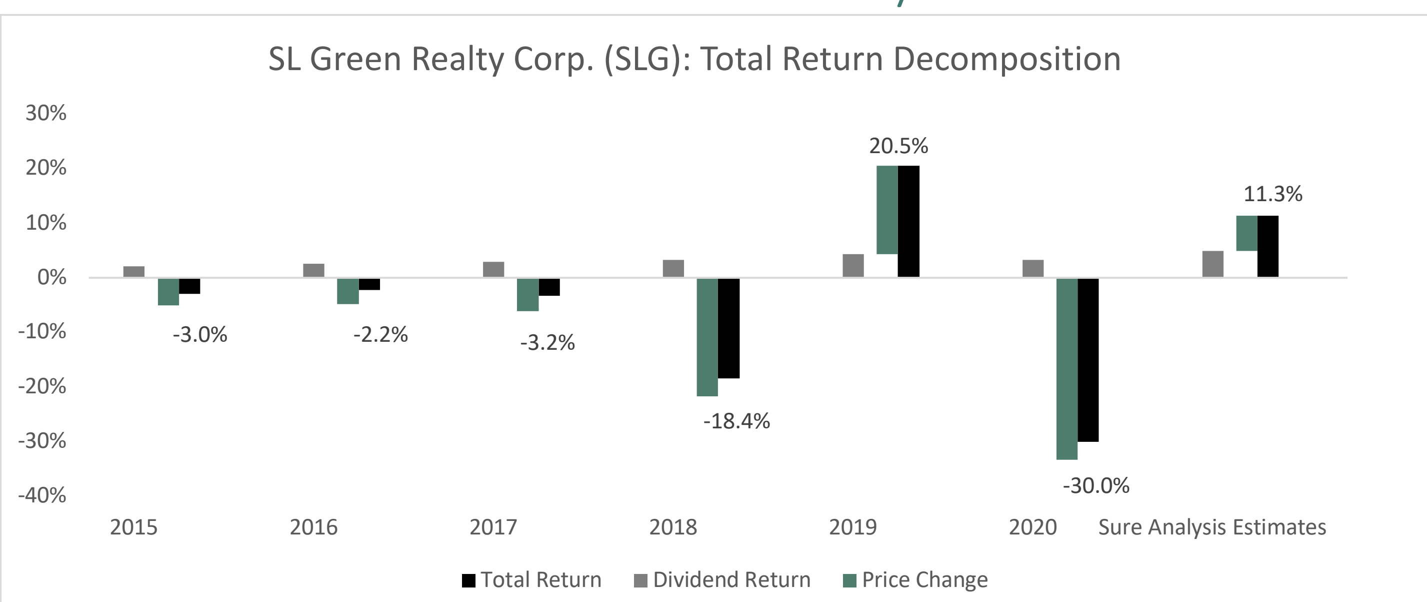
During the last 40 years, SLG has been operating, investing and developing several high-quality commercial properties in Manhattan. As a result, it has developed great expertise in the area, which constitutes a significant competitive advantage.

SLG is currently under pressure due to the pandemic, which has caused a work-from-home trend. However, the REIT has one of the strongest balance sheets in the REIT universe, as its net debt of $5.6 billion is just 12 times its annual funds from operations. This helps explain the strong BBB credit rating of SLG. Thanks to its financial strength, the REIT can endure the ongoing crisis and emerge stronger whenever the pandemic subsides. It can also maintain its attractive 4.9% dividend, which is well covered by cash flows, with a healthy payout ratio of 56%. SLG is thus suitable for income-oriented investors who can wait patiently for the recovery of the REIT from the pandemic.

Final Thoughts & Recommendation

SLG is the largest landlord in the area of Manhattan and thus it is ideal for those who want to benefit from the reliable, multi-year growth in rental rates in this area. The REIT is currently facing the headwind from the pandemic, which has led many companies to work from home. However, we expect the pandemic to subside and see more people return to working in offices from 2022. Thanks to the optimism over the impact of the massive vaccination program on the pandemic, SLG has rallied 75% in about nine months. Nevertheless, thanks to its 4.9% dividend, 5.0% annual growth of FFO per share and a 2.4% potential annualized expansion of its valuation level, SLG could still offer an 11.3% average annual return over the next five years. We thus maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1247	1290	1371	1520	1663	1864	1511	1227	1239	1,053
Gross Profit	783	788	859	988	1096	1269	941	779	780	664
Gross Margin	63%	61%	63%	65%	66%	68%	62%	63%	63%	63.1%
SG&A Exp.	80	83	86	92	95	100	100	93	101	92
D&A Exp.	292	352	358	400	588	846	419	290	284	---
Operating Profit	426	394	449	523	421	338	258	179	400	198
Operating Margin	34%	31%	33%	34%	25%	18%	17%	15%	32%	18.8%
Net Profit	647	199	138	521	291	261	113	259	281	380
Net Margin	52%	15%	10%	34%	18%	14%	7%	21%	23%	36.1%
Free Cash Flow	307	347	386	490	526	644	543	442	376	---

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13484	14386	14959	17097	19728	15858	13983	12751	12766	11,708
Cash & Equivalents	138	190	207	281	255	279	128	129	166	266
Accounts Receivable	314	397	447	432	562	496	423	378	327	347
Long-Term Debt	6,035	6,520	6,920	8,179	10,275	6,482	5,855	5,542	5,508	4,963
Shareholder's Equity	5,605	6,017	6,303	6,715	7,066	7,103	6,003	5,680	5,219	4,688
D/E Ratio	1.01	1.01	1.05	1.17	1.36	0.85	0.90	0.89	0.96	0.97

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.2%	1.4%	0.9%	3.2%	1.6%	1.5%	0.8%	1.9%	2.2%	3.1%
Return on Equity	12.8%	3.4%	2.2%	8.0%	4.2%	3.7%	1.7%	4.4%	5.2%	7.7%
ROIC	5.5%	1.5%	1.0%	3.4%	1.7%	1.5%	0.8%	2.0%	2.4%	3.4%
Shares Out.	86.2	92.9	95.3	99.7	103.7	104.9	103.4	91.5	86.6	74.3
Revenue/Share	14.46	13.89	14.39	15.25	16.03	17.77	14.62	13.41	14.31	28.87
FCF/Share	3.56	3.73	4.05	4.92	5.08	6.14	5.25	4.82	4.35	---

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