



American Finance Trust, Inc. (AFIN)

Updated August 23rd, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$8.40	5 Year CAGR Estimate:	9.5%	Market Cap:	\$989.6 M
Fair Value Price:	\$9.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	09/04/2021 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	09/15/2021
Dividend Yield:	10.1%	5 Year Price Target	\$9.00	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

American Finance Trust is an externally managed real estate investment trust (REIT), focusing on acquiring and managing a diversified portfolio of primarily service-oriented and traditional retail and distribution-related commercial properties located primarily in the United States. The trust's assets consist primarily of 864 single-tenant properties net leased to investment-grade and other creditworthy tenants and a portfolio of 33 multi-tenant retail properties consisting primarily of power and lifestyle centers. Its 939 properties comprise 19.9 million rentable square feet, which were 94.9% leased at the time of its latest filing. American Finance Trust generates around \$330 million in annual revenues and is headquartered in New York, New York.

On August 4th, 2021, American Finance Trust reported its Q2 results for the quarter ended June 30th, 2021. Revenue grew 8.9% to \$81.6 million, powered by the trust acquiring 17 properties for an aggregate contract purchase price of \$26.4 million at a weighted average capitalization rate of 7.1%. AFFO grew by 35.5% to \$28.6 million, boosted by lower administrative and operating expenses. Higher equity-based compensation also contributed to AFFO's growth. On a per-share basis, AFFO grew by 30% to \$0.26. The disproportional increase was the result of a higher share count, which was utilized to fund the trust's acquisitions.

The trust collected 100% of Q2's original cash rent due across the portfolio, indicating a full recovery from an 89% collection rate in the prior year period. The trust's properties were 94.9% leased at the end of the quarter, with an 8.5 years remaining weighted-average lease term. Further, the trust took advantage of the low rate environment to issue \$240 million investment-grade rated notes with a 2.9% weighted-average interest rate and a 9.0-year term.

While financial guidance was not provided, based on the trust's performance during the first half of the year, we expect an AFFO/share of \$1.00 for FY2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/shr²	---	---	---	---	---	\$2.43	\$2.36	\$0.98	\$0.99	\$0.90	\$1.00	\$1.00
DPS	---	---	---	---	---	\$1.65	\$1.47	\$1.10	\$1.10	\$0.70	\$0.85	\$0.85
Shares³	---	---	---	---	---	32.7	49.8	105.6	106.4	108.4	109.1	150.0

American Finance's performance is highly susceptible to economic downturns, soft occupancy levels, and lack of rent collections. With 50% of its annualized straight-line rent coming from single-tenant retail properties, such issues are not uncommon. For instance, the trust took a hit on rent collections in the midst of the pandemic. In such cases, the trust usually issues large amounts of shares to stay afloat, resulting in significantly lower AFFO/share and dividend cuts. The trust's current growth catalysts include a robust leasing pipeline which is expected to add \$2.7 million of annualized straight-line rent and 174,000 square feet to the portfolio over time as executed leases commence. Further, the trust features a weighted-average contractual rent increase of 1.3% based on annualized straight-line rent, though this rate

¹ Estimated dates based on past dividend dates.

² AFFO refers to FFO excluding certain income or expense items that are not a fundamental attribute of AFIN's operations.

³ 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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barely accounts for inflation. While AFFO/share growth is possible as the trust expands its portfolio, due to the trust's financials being very susceptible to any headwinds in the single-tenant retail market, we forecast 0% annualized growth ahead.

Dividend payments used to be made on a monthly basis, though they changed to a quarterly rate this year. The dividend has been cut more than once in a short period of time. Hence, we expect no dividend growth in the medium term as well.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	---	---	---	---	13.6	13.5	7.7	8.4	9.0
Avg. Yld.	---	---	---	---	---	---	---	8.2%	8.3%	10.0%	10.1%	9.4%

American Finance features one of the lowest valuations amongst its peers and one of the highest yields as a result. This is likely due to the market being unforgiving of the past dividend cuts, remaining cautious about future unfortunate events. Regardless, we believe that the trust has recovered relatively swiftly over the past year, and a slight valuation expansion towards a P/AFFO makes for a fairer multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

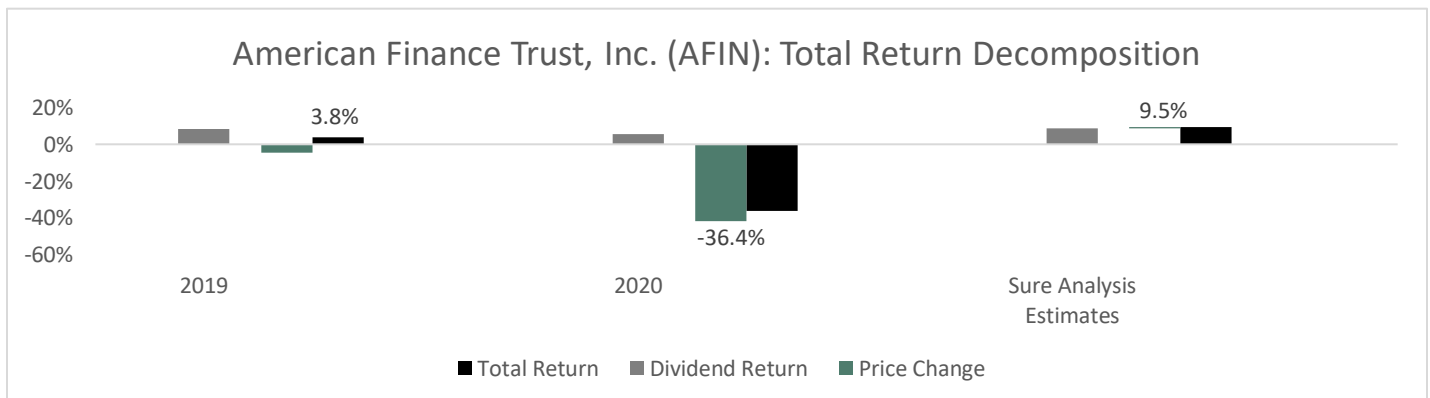
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	68%	62%	112%	111%	78%	85%	85%

American Finance's generous dividend should not be considered trustworthy. A dividend slash is more than likely during a recession or less than optimal conditions in the retail real estate market. The trust's most noteworthy qualities include a robust acquisition platform and access to cheap financing. Further, 70% of its top 20 tenants are investment-grade rated. However, the trust is also one of the most leveraged amongst its peers, featuring an uncomfortable net debt to EBITDA of 7.4X. We don't note any particular competitive advantages.

Final Thoughts & Recommendation

American Finance has only a brief track record to show. The trust is currently one of the cheapest amongst its peers, but with significant risks attached to its business model. We forecast annualized returns of 9.5%, primarily powered by the stock's generous dividend and slightly by a potential valuation expansion. Hence, we rate it a hold. We highlight, however, that income investors should not blindly trust the dividend, which is likely to be cut during a recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue				158	172	177	271	291	300	305
Gross Profit				145	159	163	228	237	247	253
Gross Margin				91.5%	92.3%	92.3%	84.3%	81.4%	82.4%	82.9%
SG&A Exp.				6	24	29	41	56	59	61
D&A Exp.				95	103	102	148	123	116	129
Operating Profit				45	33	33	34	41	64	55
Operating Margin				28.7%	19.3%	18.5%	12.4%	14.1%	21.2%	18.0%
Net Profit				(2)	(21)	(54)	(46)	(37)	4	(32)
Net Margin				-1.3%	-12.3%	-30.7%	-17.2%	-12.8%	1.4%	-10.4%
Free Cash Flow				100	89	73	84	85	92	84

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets				2,237	2,064	3,297	3,263	3,490	3,608	2,237
Cash & Equivalents				131	131	108	91	82	103	131
Accounts Receivable						29	38	47	67	
Goodwill & Int. Ass.				245	196	304	272	289	269	245
Total Liabilities				1,110	1,080	1,556	1,653	1,788	1,908	1,110
Accounts Payable				25	14	27	28	27	25	25
Long-Term Debt				1,048	1,033	1,398	1,521	1,644	1,772	1,048
Shareholder's Equity				1,127	985	1,737	1,601	1,683	1,669	1,127
D/E Ratio				0.93	1.05	0.81	0.95	0.98	1.06	0.93

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets						-2.5%	-1.7%	-1.1%	0.1%	-0.9%
Return on Equity						-5.1%	-3.4%	-2.2%	0.3%	-1.9%
ROIC						-2.6%	-1.8%	-1.2%	0.1%	-0.9%
Shares Out.						32.7	49.8	105.6	106.4	108.4
Revenue/Share				1.52	1.65	1.69	2.72	2.76	2.82	2.82
FCF/Share				0.96	0.86	0.70	0.84	0.80	0.86	0.77

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

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