Essential Properties Realty Trust Inc (EPRT)

Updated August 6th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$3.6 B
Fair Value Price:	$24	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	09/29/2021
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date[2]:**	10/15/2021
Dividend Yield:	3.3%	**5 Year Price Target:**	$33	**Years of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.2%

Overview & Current Events

Essential Properties Realty Trust Inc is a real estate investment trust which acquires, owns, and manages single-tenant properties that are leased on a long-term basis to middle-market companies who operate service-oriented or experience-based businesses. Such businesses include restaurants, car washes, automotive services, medical services, convenience stores, entertainment, health & fitness, and early childhood education. The trust owns or has an interest in 1,325 properties spanning 11.5 million square footage. There are 281 diverse tenants across 17 industries in 44 states. The diversified REIT trades on the NYSE under the ticker symbol EPRT. The Trust has a market capitalization of $3.6 billion and is headquartered in Princeton, New Jersey.

Essential Properties released second quarter results on July 28th. Net income per share increased by 82% to $0.20. Funds from operations per share increased by 23% to $0.32. Adjusted funds from operations increased 26% year-over-year to $0.34 per share. At the end of the first quarter, weighted average occupancy stood at 99.8%. The properties are under a weighted average lease term of 14.0 years with a weighted average rent coverage ratio of 3.2x.

The trust raised $15 million in the quarter through the ATM program and another $193 million through a follow-on offering. Diluted weighted-average shares outstanding grew from 92.5 million in 2Q 2020 to 117.5 million in the recent quarter, a significant 27% increase in share count.

Leadership has provided fiscal 2021 guidance and upgraded their prior expectation for 2021 AFFO of $1.30 to $1.32, up roughly 4% from guidance provided at the end of the last quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	---	---	---	---	$0.78	$1.14	$1.11	**$1.31**	**$1.84**
DPS	---	---	---	---	---	---	---	$0.43	$0.88	$0.93	**$1.00**	**$1.28**
Shares[3]	---	---	---	---	---	---	---	61.8	75.3	96.2	**120.0**	**140.0**

EPRT was formed in mid-2018, so our results only go back so far. Considering that 2018 data only spans June 25th to December 31st, year-over-year comparisons can only truly begin with year 2019, therefore there is little data from which to base future expectations off.

Based on the data we do possess; Essential Properties grew their adjusted funds from operations by 19% and -2.6% on average over the last two years and 1 year. Keep in mind that the 2-year average growth rate is from 2018-2020, where 2018 was a half year, so results are likely skewed. We estimate the trust can grow AFFO by roughly 7% going forward. The trust believes they can achieve growth through further sale-leaseback transactions with middle-market companies. So far, 88% of sale-leasebacks are internally-originated, and the trust has on average over the last two years invested roughly $171 million per quarter into growing the business. The trust also believes their balance sheet is unstretched, allowing them to fund external growth opportunities all the while maintaining their conservative leverage profile. The trust has $530 million in immediate liquidity and no debt maturities until 2024. We see further share issuance in the

[1] Estimate
[2] Estimate
[3] In thousands

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.

future as this real estate trust appears to just be getting started, however this capital should go into growing the portfolio. According to leadership, EPRT has the highest 2021 and 2022 AFFO per share growth of 11.4% and 10.8% in its particular industry, however this is off the back of the pandemic.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	---	---	---	---	17.81	18.34	16.52	**22.9**	**18.0**
Avg. Yld.	---	---	---	---	---	---	---	3.1%	3.4%	5.3%	**3.3%**	**3.9%**

Essential Properties has traded at a price-to-adjusted funds from operations ratio of 17.6 on average since inception in 2018. Today shares are trading at 22.9 times estimated 2021 AFFO, while we believe fair value is closer to 18.0 times AFFO. This decline in valuation could result in losses of 4.7% per year on average over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	55%	77%	84%	**76%**	**69%**

The payout ratio for EPRT is calculated as dividends per share divided by AFFO per share. The payout ratio has been healthy since the inception of the trust, and we see this as continuing. The yield is not as astronomical as many REITs with higher payout ratios flaunt, as the trust is still in its growth phase.

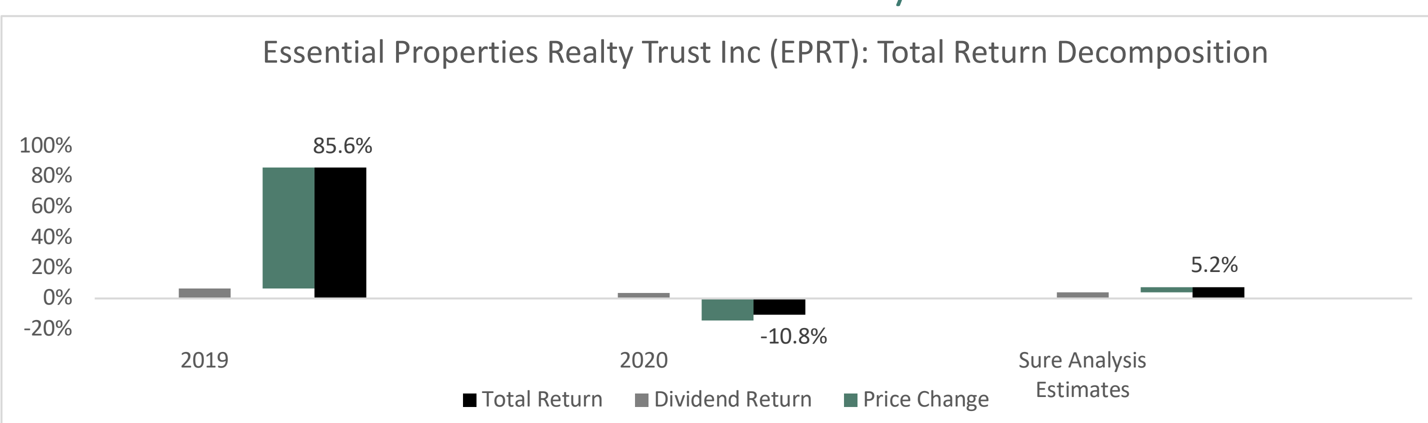
The Essential Properties trust only began operating a few years ago, and thus we have no information dating back to the great financial crisis, but we would anticipate a large number of bankruptcies from so many diverse service-oriented businesses. However, the trust made it through the COVID-19 pandemic practically unscathed on an AFFO basis (down 3% from 2019 to 2020), despite share count rising massively from the onset of the pandemic.

A competitive advantage of EPRT is their focus on leasing to service-oriented businesses, and in doing so, they have tenants that are well-positioned to withstand competition from e-commerce business, which in turn increases the stability and predictability of the Trust's rental revenue.

Final Thoughts & Recommendation

Essential Properties Realty is a relatively new REIT and has strong expected AFFO growth compared to peers over the next two years. The Trust appears to be a budding dividend growth REIT as they have raised it a couple times since inception. We believe shares are trading a little hot at 127% of our estimated fair value. While the trust's total expected returns come in at 5.3% in the near term, we rate shares a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue							54	96	139	164
Gross Profit							53	94	136	160
Gross Margin							97.2%	97.9%	97.8%	97.6%
SG&A Exp.							9	14	22	24
D&A Exp.							20	32	43	59
Operating Profit							25	49	72	75
Op. Margin							45.2%	51.1%	51.5%	46.0%
Net Profit							6	16	42	42
Net Margin							11.6%	16.2%	30.0%	25.8%
Free Cash Flow							22	46	89	99
Income Tax							0	0	0	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets						466	942	1,381	1,975	2,489
Cash & Equivalents						2	7	4	8	27
Accts. Recv.						1	5	14	42	63
Goodwill						56	62	66	79	80
Total Liabilities						292	761	570	773	907
Long-Term Debt							742	540	727	815
Total Equity						175	181	562	1,194	1,575
D/E Ratio							4.09	0.96	0.61	0.52

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets								1.3%	2.5%	1.9%
Return on Equity							3.5%	4.2%	4.8%	3.1%
ROIC								1.4%	2.6%	2.0%
Shares Out.								61.8	75.3	96.2
Revenue/Share							1.33	2.20	1.85	1.70
FCF/Share							0.55	1.05	1.18	1.03

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