



Monmouth Real Estate Investment Corp. (MNR)

Updated August 18th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$18.95	5 Year CAGR Estimate:	2.3%	Market Cap:	\$1.84 B
Fair Value Price:	\$15.00	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	11/13/2021 ¹
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date:	12/15/2021
Dividend Yield:	3.8%	5 Year Price Target	\$17.39	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	5.9%

Overview & Current Events

Monmouth Real Estate Investment Corporation specializes in the ownership of well-located, modern, single-tenant, industrial buildings leased primarily to investment-grade tenants or their subsidiaries under long-term net leases. The trust owns 120 properties with a total rentable square footage of 24.5 million, located in 31 states. Monmouth generates around \$170 million in annual rental revenues and is headquartered in Holmdel, New Jersey. The trust was founded in 1968 and is, therefore, one of the oldest public equity REITs in the world.

On August 4th, 2021, Monmouth Real Estate Investment Corp. reported its FQ3 results for the quarter ended June 30th, 2021. Rental revenues came in at \$39.0 million, 10.1% higher year-over-year, primarily boosted by an increased amount of properties over the past year as a result of acquisitions. AFFO reached \$19.7 million, 1.5% higher vs. FQ3-2020, as a result of higher expenses and lower dividend income, offset by realized gains on the sale of real estate assets.

AFFO/share was \$0.20, flat vs. the prior-year period due to the additional shares issued to fund the trust's acquisitions, offsetting any AFFO growth. During the quarter, the trust completed the acquisitions of two high-quality properties comprising 1.1 million square feet for an aggregate purchase price of \$170.0 million. Additionally, subsequent to quarter-end, Monmouth acquired one of the six buildings from its acquisition pipeline comprising 144,000 square feet for \$54.8 million. This property, similar to a great chunk of Monmouth's portfolio, is leased to FedEx Ground for 15 years and is expected to generate \$3.2 million in annual rent. At the end of the quarter, occupancy stood at an exceptional 99.7%, increasing 30 basis points over the prior year. While financial guidance was not provided, the trust has generated AFFO/share of \$0.58 during the first nine months of its fiscal year, vs. \$0.60 during Q1-Q3 of FY2020. We hence expect FY2021's AFFO/share to be slightly lower than that of last year, at \$0.75.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/shr²	\$0.65	\$0.66	\$0.46	\$0.52	\$0.57	\$0.70	\$0.76	\$0.87	\$0.85	\$0.78	\$0.75	\$0.87
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.61	\$0.64	\$0.65	\$0.68	\$0.68	\$0.68	\$0.72	\$0.79
Shares³	35.1	39.7	42.3	49.8	59.1	65.5	72.1	78.6	93.4	98.1	98.6	120.0

Monmouth has grown its portfolio consistently over the past decade, though AFFO/share features a 10-year CAGR of just 2%, primarily due to expensive share issuances to fund its acquisitions. Future growth catalysts include higher annualized average base rent per occupied square foot (2% higher YoY in FQ3) and accretive acquisitions from the trust's pipeline. At the end of the quarter, the REIT's pipeline had six new build-to-suit properties containing 1.8 million square feet, all of which are to be leased to investment-grade tenants. One of the six was completed subsequent to the quarter. Considering Monmouth's ongoing performance, we forecast AFFO/share CAGR of 3% through 2026. In terms of its dividend, Monmouth has not cut it since 1991 but has only hiked it rarely when its AFFO/share hits a new plateau. We forecast a medium-term DPS CAGR of 2%, though note that hikes may not occur on an annual basis.

¹ Estimated dates based on past dividend dates.

² The trust believes that Adjusted FFO (FFO excluding stock based comp., and other minor items) better reflects its performance.

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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	12.9	16.9	19.6	19.5	17.0	17.1	21.1	18.0	16.7	18.7	25.3	20.0
Avg. Yld.	7.1%	5.4%	6.7%	5.9%	6.3%	5.3%	4.1%	4.4%	4.8%	4.7%	3.8%	4.6%

Monmouth's P/AFFO multiple has historically hovered around 18, reflecting the trust's rock-solid cash flow generation, which investors tend to reward with a slight premium. Over the past year, however, the stock has reached new highs, resulting in a notable valuation expansion. Consequently, the stock's yield has also been compressed to a 30+ year low of 3.8%. Considering the trust's rather limited growth estimates, we believe that a multiple compression close to its historical average is well-justified. We have set the stock's fair P/AFFO at 20, as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

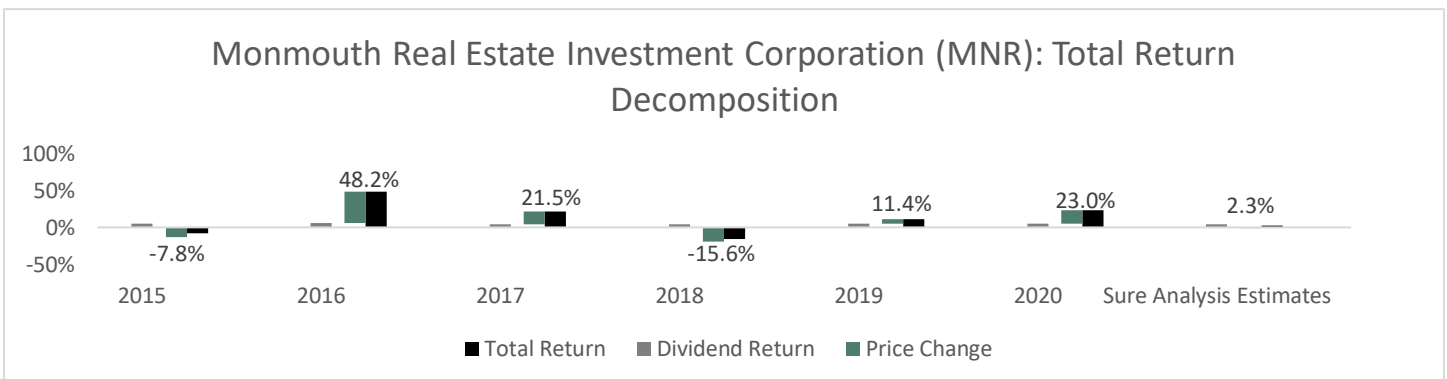
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	92%	91%	130%	115%	107%	91%	86%	78%	80%	87%	96%	91%

While Monmouth's payout ratio seems a bit uncomfortable at 96% of its AFFO generation, we consider it rather safe. This is due to the trust only thoughtfully increasing its DPS and due to no cuts occurring for more than 30 years, including multiple periods of adverse economic conditions of all types. The trust enjoys several qualities, including a weighted average lease term of 7.2 years that provides great cash flow visibility, dream-like occupancy levels, and low average interest rates on its debt which keep declining (3.86% vs. 4% in FQ3-2020). Further, 46% of the trust's total rental space is leased to FedEx and its subsidiaries. FedEx is a global behemoth providing fantastic creditworthiness to Monmouth, though at such a high percentage, a lack of diversification issue could be raised. Amazon also accounts for ~6% of total rental revenues. Monmouth's competitive advantages include its built-to-fit properties catering to the special demand of its tenants, as well as management's extensive experience, running one of the oldest REITs in the world. Monmouth's decade-long track record of operations and DPS payouts speaks volumes to its recession resiliency.

Final Thoughts & Recommendation

Monmouth's features some fantastic qualities that have led to consistent shareholder value creation throughout the decades. The trust's contracts should provide excellent cash flow visibility ahead, while its acquisition pipeline should keep growing its rental revenues. However, we believe that the trust's per-share growth estimates remain relatively limited, which we expect to advance in the low single-digits in the medium term. Further, the stock's extended valuation could be a headwind to total returns. These factors point towards annualized returns of just 2.3% through 2026. Hence, despite Monmouth's unique traits, we rate it a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	48	54	55	66	78	98	116	136	155	168
Gross Profit	39	45	46	55	66	80	96	115	131	141
Gross Margin	80.0%	83.5%	83.3%	82.8%	84.0%	82.0%	82.7%	84.7%	84.7%	83.9%
SG&A Exp.	4	5	5	6	6	8	8	9	9	9
D&A Exp.	12	14	16	18	23	27	33	40	47	51
Operating Profit	23	27	26	31	37	46	57	68	76	82
Operating Margin	47.7%	50.2%	47.4%	47.2%	48.0%	47.2%	48.9%	49.8%	49.2%	48.8%
Net Profit	15	19	21	20	26	32	40	56	30	(22)
Net Margin	32.0%	34.9%	38.7%	30.1%	32.8%	33.2%	34.6%	41.3%	19.2%	-13.2%
Free Cash Flow	21	22	13	15	28	33	69	76	86	93

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	477	575	617	744	916	1,223	1,443	1,718	1,872	1,940
Cash & Equivalents	6	25	12	20	12	96	10	9	20	24
Accounts Receivable		1	1	1	1	1	2	1	1	5
Goodwill & Int. Ass.	6	8	7	6	6	6	10	15	15	17
Total Liabilities	242	259	281	323	470	626	730	920	861	902
Long-Term Debt	17	252	272	313	459	558	711	898	840	875
Shareholder's Equity	181	205	225	310	335	405	467	511	663	566
D/E Ratio	0.07	0.80	0.81	0.74	1.03	0.93	1.00	1.13	0.83	0.84

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.3%	3.6%	3.6%	2.9%	3.1%	3.0%	3.0%	3.5%	1.7%	-1.2%
Return on Equity	8.5%	9.7%	10.0%	7.4%	7.9%	8.8%	9.2%	11.5%	5.1%	-3.6%
ROIC	4.4%	4.6%	3.6%	3.0%	3.1%	3.2%	3.1%	3.6%	1.7%	-1.2%
Shares Out.	35.1	39.7	42.3	49.8	59.1	65.5	72.1	78.6	93.4	98.1
Revenue/Share	1.37	1.35	1.30	1.32	1.32	1.49	1.61	1.72	1.66	1.71
FCF/Share	0.59	0.56	0.32	0.30	0.46	0.51	0.95	0.96	0.92	0.95

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

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