



STAG Industrial (STAG)

Updated August 20th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	2.0%	Market Cap:	\$6.9 B
Fair Value Price:	\$31	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	9/29/2021
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	10/15/2021
Dividend Yield:	3.5%	5 Year Price Target	\$39	Years Of Dividend Growth:	10
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	0.7%

Overview & Current Events

STAG Industrial is an owner and operator of industrial real estate. It is focused on single-tenant industrial properties and has 501 buildings across 39 states in the United States. STAG Industrial went public in 2011 and has a market capitalization of \$6.9 billion.

The focus of this REIT on single-tenant properties might create higher risk compared to multi-tenant properties, as the former are either fully occupied or completely vacant. However, STAG Industrial executes a deep quantitative and qualitative analysis on its tenants. As a result, it has incurred credit losses that have been less than 0.1% of its revenues since its IPO. As per the latest data, 54% of the tenants are publicly rated and 31% of the tenants are rated “investment grade.” The company typically does business with established tenants to reduce risk.

In late July, STAG Industrial reported (7/27/21) financial results for the second quarter of fiscal 2021. Core FFO grew 20% over last year’s quarter thanks to the sustained strength of the REIT’s tenants. Core FFO per share grew at a slower rate (11%), from \$0.47 to \$0.52, due to the issuance of new units. Net operating income grew 13% over last year’s quarter while the occupancy rate marginally decreased, from 97.0% to 96.8%. STAG Industrial is facing a headwind due to the pandemic. However, the effect of the pandemic on the REIT has been limited so far thanks to the high credit profile of its tenants. It is remarkable that the REIT has collected approximately 99% of its rental income in the last four quarters. Given its strong momentum, we have raised our forecast for FFO per share from \$1.95 to \$2.04.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	\$1.03	\$1.25	\$1.44	\$1.33	\$1.42	\$1.43	\$1.70	\$1.80	\$1.84	\$1.89	\$2.04	\$2.60
DPS	\$0.73	\$1.07	\$1.20	\$1.29	\$1.36	\$1.39	\$1.41	\$1.42	\$1.43	\$1.44	\$1.45	\$1.50
Shares¹	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5	170.0	300.0

STAG Industrial has grown its FFO per share at a 7.0% average annual rate over the last decade and at a 5.9% average annual rate over the last five years. The U.S. industrial market is more than \$1 trillion in size and STAG Industrial still has a market share that is less than 1% of its target market, which includes the top 60 markets of the country. Therefore, the REIT has ample room to continue to grow for years. As STAG Industrial has begun to recover from the pandemic, along with the economy, we expect it to grow its FFO per share around its historical pace in the upcoming years. If the REIT grows its FFO per share at a 5.0% annual rate, its FFO per share will grow from \$2.04 this year to \$2.60 in 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/FFO	11.1	14.4	14.2	18.4	13.0	16.7	16.4	14.5	16.0	15.6	20.6	15.0
Avg. Yld.	6.4%	7.2%	5.7%	5.6%	6.4%	6.4%	5.3%	5.5%	4.9%	4.9%	3.5%	3.8%

¹ In millions.

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STAG Industrial is currently trading at a P/FFO ratio of 20.6, which is higher than its historical average of 15.0. If the stock reverts to its average valuation level over the next five years, it will incur a -6.1% annualized drag due to the contraction of its P/FFO ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	70.9%	85.6%	83.3%	97.0%	95.8%	97.2%	84.4%	78.9%	77.7%	76.2%	71.1%	57.7%

STAG Industrial has a well-laddered lease maturity schedule, with a weighted average lease term of 5.2 years and about half of the leases maturing after the end of 2025. Thus, the cash flows of the REIT can be considered fairly reliable under normal business conditions. STAG Industrial is one of the few REITs that pay dividends on a monthly (instead of a quarterly) basis – a valuable characteristic for income investors. Income investors should also note that STAG Industrial currently offers a 3.5% yield and has never cut its dividend throughout its short history. Moreover, while its payout ratio rose to high levels during 2014-2016, it has fallen to healthy levels in the last two years.

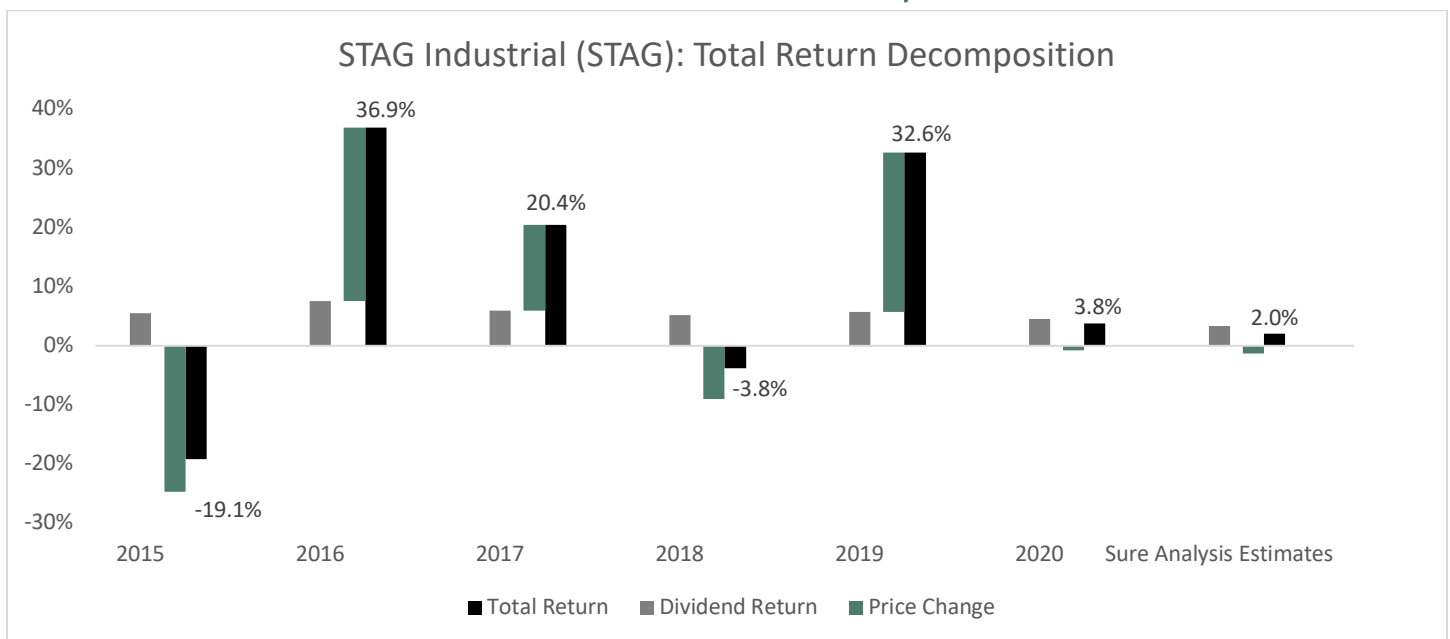
On the other hand, the REIT heavily dilutes its unitholders on a regular basis. Its unit count has more than tripled, from 42 million in 2013 to 161 million now. While the dividend per share has risen only 20% since 2013, the annual amount paid has more than tripled, from \$76 million in 2013 to \$235 million in the last 12 months. As a result, the financial burden of the dividend on the REIT has greatly increased.

Due to its focus on industrial properties, the REIT is highly vulnerable to recessions. The recession caused by the pandemic has hardly affected the performance of STAG Industrial so far, but it is likely to impact results if the pandemic extends beyond this year. In such a case, the REIT will have an elevated probability of cutting its dividend.

Final Thoughts & Recommendation

STAG Industrial has proved markedly resilient to the pandemic so far, partly thanks to the unprecedented stimulus packages of the government. However, as the stock has more than doubled off its bottom last year, we expect it to offer just a 2.0% average annual return over the next five years. We thus rate it as 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	44	84	134	174	219	250	301	351	406	483
Gross Profit	39	71	110	140	176	201	243	282	331	394
Gross Margin	87.6%	84.7%	82.1%	80.8%	80.5%	80.5%	80.8%	80.3%	81.5%	81.5%
SG&A Exp.	5	15	18	26	29	33	33	34	36	40
D&A Exp.	21	48	77	94	119	132	155	172	190	219
Operating Profit	10	14	24	26	37	43	59	80	109	139
Op. Margin	23.6%	16.9%	18.3%	15.1%	16.8%	17.0%	19.6%	22.9%	26.9%	28.8%
Net Profit	-5	-6	6	-4	-27	35	31	93	49	202
Net Margin	-10.3%	-7.7%	4.1%	-2.1%	-12.5%	13.8%	10.4%	26.5%	12.1%	41.8%
Free Cash Flow	15	48	83	97	122	136	162	198	28	183

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	625	1005	1270	1629	1902	2186	2681	3103	4165	4,693
Cash & Equivalents	16	19	7	24	12	12	25	8	9	16
Accounts Receivable	6	9	14	17	21	25	34	42	58	78
Goodwill & Int. Ass.	5	5	---	248	276	295	313	342	475	500
Total Liabilities	315	516	596	738	1044	1119	1270	1433	1801	1,922
Accounts Payable	6	12	19	22	26	35	43	46	54	70
Long-Term Debt	297	479	556	686	980	1036	1174	1326	1645	1,703
Shareholder's Equity	162	359	464	725	683	882	1214	1539	2231	2,641
D/E Ratio	1.29	1.12	0.92	0.79	1.19	1.01	0.86	0.82	0.71	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.7%	1.3%	3.2%	1.4%	4.6%
Return on Equity	-2.9%	-2.5%	1.3%	-0.6%	-3.9%	4.4%	3.0%	6.8%	2.6%	8.3%
ROIC	-0.8%	-0.8%	0.5%	-0.3%	-1.6%	1.8%	1.3%	3.3%	1.4%	4.8%
Shares Out.	15.6	25.1	42.4	53.2	66.6	69.8	100.2	115.1	137.8	150.5
Revenue/Share	2.77	3.36	3.16	3.21	3.30	3.53	3.35	3.38	3.23	3.24
FCF/Share	0.96	1.92	1.95	1.79	1.84	1.92	1.80	1.91	0.22	1.23

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

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