Uniti Group (UNIT)

Updated September 8th, 2021 by Samuel Smith

Key Metrics

Current Price:	$13.04	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$3.1 B
Fair Value Price:	$16.20	**5 Year Growth Estimate:**	4.3%	**Ex-Dividend Date:**	09/16/21
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.4%	**Dividend Payment Date:**	10/01/21
Dividend Yield:	4.6%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	NA

Overview & Current Events

Uniti Group is a Real Estate Investment Trust (i.e., REIT) that focuses on acquiring, constructing, and leasing out communications infrastructure in the United States. In particular, it owns millions of miles of fiber strand along with other communications real estate. In its recent past it has faced challenges due to its largest tenant filing for bankruptcy and renegotiating its lease with Uniti. However, the REIT is now on firmer footing and is pursuing growth opportunities.

On August 5th, Uniti Group reported Q2 results. While revenue and adjusted FFO (AFFO) per share missed consensus estimates, management still reaffirmed full year guidance, which implies 2% revenue growth at the midpoint. AFFO per share fell from $0.44 in the year-ago period to $0.41 in Q2 2021. Revenue grew slightly year-over-year from $266.82 million to $268.2 million. Adjusted EBITDA increased at a healthy clip to $215.73 million from $202.9 million year-over-year. Uniti reported consolidated bookings during Q2 of $1 million in monthly recurring revenue, up 80% sequentially.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO/S	---	---	---	---	$1.78	$2.61	$2.51	$2.51	$2.08	$1.72	***$1.62***	***$2.00***
DPS	---	---	---	---	$1.64	$2.40	$2.40	$2.40	$0.00	$0.60	***$0.60***	***$0.90***
Shares[1]	---	---	---	---	150.5	155.8	175.4	183.1	193.3	232.9	***233.4***	***240.0***

Since the IPO in 2015, Uniti Group has struggled to grow AFFO per share as it has been weighed down by a heavy debt burden and significant troubles with a very large tenant. Eventually it was forced to renegotiate its lease and as a result has taken a hit to cash flows. However, the REIT is on much firmer footing today and is looking to reignite growth.

It is primarily working to drive this growth through refinancing its debt at significantly lower rates in order to generate increased cash flow from existing revenue streams while also leasing up its under-utilized assets. By adding leasing to its assets it can generate extremely high returns on investment capital as additional customers require minimal additional capital expenditures, but bring in strong cash flows. As a result, we expect Uniti Group to generate solid mid-single digit annualized AFFO per share growth over the next half decade.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	---	---	---	---	10.5	9.7	7.4	6.3	4.0	6.8	***8.0***	***10.0***
Avg. Yld.	---	---	---	---			1.7%	3.1%	1.6%	0.9%	***4.6%***	***4.5%***

Uniti Group has traded at mid to high single digit P/AFFO multiples for most of its existence. That said, we believe it now deserves a higher multiple given that it is standing on stronger footing after it renegotiated the lease with its largest tenant and is now pivoting to growth.

With interest rates at historic lows and Uniti poised to grow AFFO per share at a steady clip moving forward, we assign a fair value P/AFFO multiple of 10x, which should provide a meaningful tailwind to total returns moving forward.

---

[1] 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.

Uniti Group (UNIT)

Updated September 8th, 2021 by Samuel Smith

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	92%	92%	96%	96%	NA	35%	***37%***	***45%***

While Uniti Group's balance sheet is far from rock solid, it is on firmer footing and continuing to improve as management works to refinance debt to improve the maturity ladder as well as reduce interest costs. Furthermore, the trust is retaining a lot of cash right now thanks to the low payout ratio which it is using to deleverage and pursue growth opportunities which should in turn reduce leverage further.

Uniti's fiber assets are critical infrastructure in the regions in which it operates and therefore the REIT should enjoy fairly stable cash flows in the face of a recession. While its assets are mission critical, there is nothing unique about Uniti Group that gives it a durable competitive advantage. As a result, it lacks meaningful pricing power and therefore is unlikely to drive abnormally high profitability over time. The main source of total returns will be a combination of its stable cash flowing business model and multiple expansion to compensation for the current deep discount in shares.

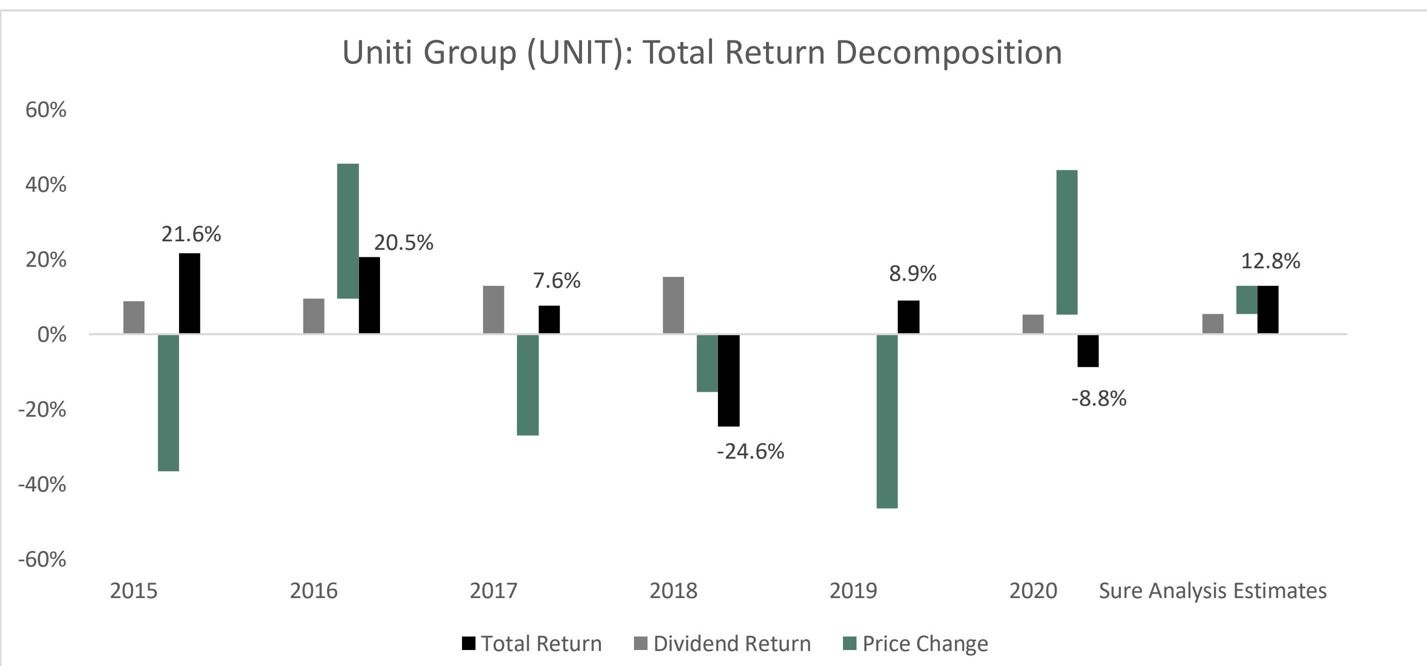
Given the low payout ratio, significant growth upside, and the mission critical and recession resistant nature of Uniti's assets, the dividend looks quite safe for the foreseeable future.

Final Thoughts & Recommendation

Uniti Group offers investors the best of all three investment approaches: a stable and attractive dividend with the potential for growth in the near future, a significantly undervalued business model that could lead to rapid price appreciation as the multiple expands, and meaningful growth opportunities in its fiber assets that should drive attractive long term price appreciation.

While the balance sheet is not quite as strong as we would like to see it, and the management team needing to re-earn investor trust after the past several years of disappointing returns, Uniti's best days appear to be ahead of it and the 12.8% expected annualized total returns for the next half decade make it a Buy.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Uniti Group (UNIT)

Updated September 8th, 2021 by Samuel Smith

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		63	45	36		770	916	1,018	1,058	1,067
Gross Profit		31	22	17						
Gross Margin		49.0%	48.5%	47.1%		0.0%	0.0%	0.0%	0.0%	0.0%
SG&A Exp.		1	0	0		35	72	85	103	105
D&A Exp.						376	434	452	406	329
Operating Profit		25	17	12		309	308	344	389	473
Operating Margin		38.6%	36.6%	34.1%		40.2%	33.6%	33.8%	36.8%	44.4%
Net Profit		25	17	12		(0)	(9)	16	11	(706)
Net Margin		38.6%	36.6%	34.1%		0.0%	-1.0%	1.6%	1.0%	-66.2%
Free Cash Flow						341	239	49	267	(160)
Income Tax						1	(39)	(5)	5	(15)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			22	17	2,543	3,319	4,330	4,593	5,017	4,732
Cash & Equivalents					142	172	60	38	143	78
Accounts Receivable			3	2	14	44	91	166	80	76
Goodwill & Int. Ass.			19	14	11	423	1,103	1,125	1,223	993
Total Liabilities			10	8	3,710	4,641	5,454	6,000	6,500	6,804
Accounts Payable					10	41	78	94	227	146
Long-Term Debt		-	-	-		4,028	4,483	4,846	5,018	4,817
Shareholder's Equity			12	9	(1,167)	(1,402)	(1,309)	(1,586)	(1,567)	(2,142)
D/E Ratio			-	-		(3.05)	(3.66)	(3.23)	(3.20)	(2.25)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				63.8%		0.0%	-0.2%	0.4%	0.2%	-14.5%
Return on Equity				117%						
ROIC				117%		0.0%	-0.3%	0.5%	0.3%	-22.5%
Shares Out.					150.5	155.8	175.4	183.1	193.3	232.9
Revenue/Share		0.42	0.30	0.24		5.05	5.42	5.75	5.64	5.24
FCF/Share						2.24	1.42	0.28	1.42	(0.79)

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