



# American Finance Trust, Inc. (AFIN)

Updated November 8<sup>th</sup>, 2021 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$8.75	<b>5 Year CAGR Estimate:</b>	8.7%	<b>Market Cap:</b>	\$1.03 B
<b>Fair Value Price:</b>	\$9.00	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	01/08/2022 <sup>1</sup>
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	01/15/2022
<b>Dividend Yield:</b>	9.7%	<b>5 Year Price Target</b>	\$9.00	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	21.4%

## 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 company's assets consist primarily of 935 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 968 properties comprise 20.1 million rentable square feet, which were 93.2% leased at the time of its latest 10-Q. American Finance Trust generates around \$305 million in annual revenues and is headquartered in New York, New York.

On November 3<sup>rd</sup>, 2021, American Finance Trust reported its Q3 results for the period ending September 30<sup>th</sup>, 2021. Revenue grew 17.1% to \$91.9 million, powered by the company acquiring 32 properties for an aggregate contract purchase price of \$86.5 million at a weighted average capitalization rate of 8.9%. AFFO grew by 41.7% to \$36 million, boosted by weaker growth in total operating expenses against revenue growth. On a per-share basis, AFFO grew by 30.4% to \$0.30. The disproportional increase was the result of a higher share count, which was utilized to fund the company's acquisitions.

The company collected 100% of Q3's original cash rent due across the portfolio, indicating a full recovery from the more challenging prior-year period. The company's properties were 93.2% leased at the end of the quarter, with an 8.7 years remaining weighted-average lease term. While financial guidance was not provided, we continue to expect an AFFO/share of \$1.00 for FY2021 based on the company's performance during the first nine months of the year.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>AFFO/shr<sup>2</sup></b>	---	---	---	---	---	\$2.43	\$2.36	\$0.98	\$0.99	\$0.90	<b>\$1.00</b>	<b>\$1.00</b>
<b>DPS</b>	---	---	---	---	---	\$1.65	\$1.47	\$1.10	\$1.10	\$0.70	<b>\$0.85</b>	<b>\$0.85</b>
<b>Shares<sup>3</sup></b>	---	---	---	---	---	32.7	49.8	105.6	106.4	108.4	<b>118.8</b>	<b>150.0</b>

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 company took a hit on rent collections in the midst of the pandemic. In such cases, the company usually issues large amounts of shares to stay afloat, resulting in significantly lower AFFO/share and dividend cuts. The company's current growth catalysts include a robust leasing pipeline which is expected to add \$2.1 million of annualized straight-line rent and 141,000 square feet to the portfolio over time as executed leases commence. Further, the company features a weighted-average contractual rent increase of 1.2% based on annualized straight-line rent, though this rate barely accounts for inflation. While AFFO/share growth is possible as the company expands its portfolio,

<sup>1</sup> Estimated dates based on past dividend dates.

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

<sup>3</sup> 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.*



# American Finance Trust, Inc. (AFIN)

Updated November 8<sup>th</sup>, 2021 by Nikolaos Sismanis

we forecast 0% annualized growth ahead due to the company's financials being very susceptible to any headwinds in the single-tenant retail market.

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	8.8	9.0
Avg. Yld.	---	---	---	---	---	---	---	8.2%	8.3%	10.0%	9.7%	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 company 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

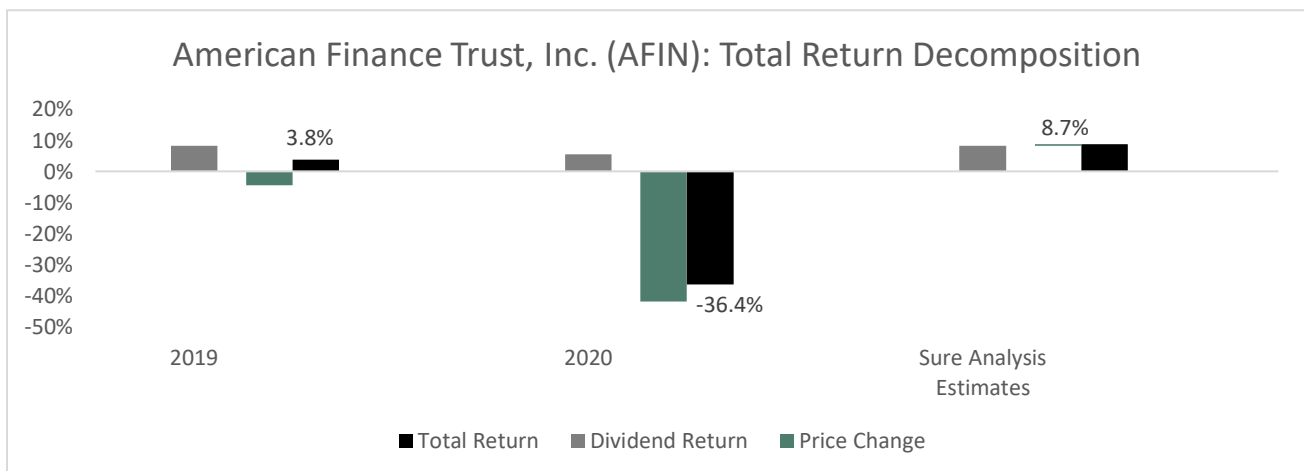
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	68%	62%	112%	111%	78%	85%	85%

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 company's most noteworthy qualities include a robust acquisition platform and access to cheap financing. Further, 66% of its top 20 tenants are investment-grade rated. However, the company is also one of the most leveraged amongst its peers, featuring an uncomfortable net debt to EBITDA of 6.8X. We don't note any particular competitive advantages.

## Final Thoughts & Recommendation

American Finance has only a brief track record to show. The company is currently one of the cheapest amongst its peers, but with significant risks attached to its business model. We forecast annualized returns of 8.7%, 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



[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.



# American Finance Trust, Inc. (AFIN)

Updated November 8<sup>th</sup>, 2021 by Nikolaos Sismanis

## 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
Income Tax	---	---	---	158	172	177	271	291	300	305

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	2237	2064	3297	3263	3490	3608
Cash & Equivalents	---	---	---	---	131	131	108	91	82	103
Accounts Receivable	---	---	---	---	---	---	29	38	47	67
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int. Ass.	---	---	---	---	245	196	304	272	289	269
Total Liabilities	---	---	---	---	1110	1080	1556	1653	1788	1908
Accounts Payable	---	---	---	---	25	14	27	28	27	25
Long-Term Debt	---	---	---	---	1048	1033	1398	1521	1644	1772
Shareholder's Equity	---	---	---	---	1127	985	1737	1601	1683	1669
D/E Ratio	---	---	---	---	0.93	1.05	0.81	0.95	0.98	1.06

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	-2.52%	-1.73%	-1.14%	0.12%	-0.90%
Return on Equity	---	---	---	---	---	-5.14%	-3.42%	-2.24%	0.25%	-1.90%
ROIC	---	---	---	---	---	-2.59%	-1.80%	-1.19%	0.13%	-0.93%
Shares Out.	---	---	---	104	104	104	100	106	106	108
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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.