



Four Corners Property Trust, Inc. (FCPT)

Updated October 30th, 2021 by Felix Martinez

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	8.7%	Market Cap:	\$2.26 B
Fair Value Price:	\$29	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/31/21 ¹
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	01/15/22
Dividend Yield:	4.4%	5 Year Price Target	\$37	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	4.10%

Overview & Current Events

Four Corners Property Trust was formed after Darden Restaurants, Inc (DRI) spin-off, announced in November 2015. Four Corners Property Trust commenced trading on November 10, 2015, on the New York Stock Exchange under the symbol FCPT. FCPT has become an independent public trust that intends to elect and qualify to be treated as a real estate investment trust (REIT) effective January 1, 2016. FCPT, headquartered in Mill Valley, CA, is a real estate investment trust primarily acquiring and leasing restaurant properties. The Trust seeks to grow its portfolio by acquiring additional real estate to lease, on a net basis, for use in the restaurant and retail industries. Currently, the Trust has a four-year dividend growth history and a market capitalization of \$2.26 billion.

On October 26, 2021, FCPT reported third-quarter 2021 financial and operating results. During the quarter, the Trust received rent payments representing 99.8% of its portfolio. Overall, rental revenue increased 12.3% over 3Q20. Rental revenue increased 12.3% over the prior year of \$43.7 million. Total rental revenue consisted of \$42.2 million in cash rents and \$1.4 million straight-line and other non-cash rent adjustments. For the first nine months of the fiscal year, total revenues are up 16.1%, from \$126 million to \$146 million thus far. Operating expenses increased year over year to \$21.2 million this quarter from \$19.4 million a year ago. Increased operating costs were primarily driven by depreciation and amortization as well as general and administrative. Net income for the quarter was up 9.3% vs. the prior-year quarter. Net income was \$21.2 million for the third quarter or \$0.28 per diluted share. For the first nine months of the year, Net income was \$62 million, or \$0.81 per diluted share. These results compare to net income of \$57.1 million for the same nine months period in 2020, or \$0.81 per diluted share.

On a Funds from Operation (FFO) front, the FCPT earned \$0.39 per share, representing a \$0.01 per share increase compared to the third quarter in 2020. However, in Adjusted Funds from Operation (AFFO), the Trust made \$0.39, which increases \$0.02 per share vs. 3Q20.

FCPT acquired 53 properties for a combined purchase price of \$107.4 million during the quarter with an initial weighted average cash yield of 6.4% and a weighted average remaining lease term of 10.3 years.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO	\$0.82	\$0.92	\$0.91	\$1.51	\$1.22	\$1.29	\$1.36	\$1.39	\$1.44	\$1.53	\$1.95
DPS	---	---	---	---	\$1.17	\$1.00	\$1.11	\$1.17	\$1.23	\$1.27	\$1.47
Shares²	42.0	42.0	42.0	6.0	60.0	61.0	64.0	69.0	72.0	73.0	76.0

The most significant growth prospects from FCPT will be the continuation of profitable acquisitions in the future. The Trust does not have a long history of FFO growths, but FCPT had grown FFO at a Compound Annual Growth Rate (CAGR) of 4.6% over the past five years. During the COVID-19 pandemic, most REITs had to cut their dividend or FFO decreased

¹ Ex-Dividend and Dividend Payment Date are estimates

² 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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for the year. However, FCPT increased earnings by 4% from 2019 to 2020. We expect FCPT to continue to grow FFO at a 5% CAGR for the next five years. This means that we expect the Trust to make \$1.95 per share in 2026.

The dividend has been growing steadily, with a five-year average growth rate of 1.7%. We think that the Trust will start raising its dividend at a slightly higher pace of 3% for the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	NA	NA	NA	16.0	16.8	19.9	19.3	20.3	20.7	19.0	19.0
Avg. Yld.	NA	NA	NA	NA	5.7%	3.9%	4.3%	4.1%	4.1%	4.4%	4.0%

FCPT currently trades hands with a 19.0x FFO, which is a little lower than its peers. Over the short history of FCPT, the Trust has five-year multiple averages of 19.4x FFO. Thus, we think a multiple of 19x FFO is fair for FCPT. This will provide a 0% tailwind expansion over the next five years. The current dividend yield of 4.4% is right in-line with its five-year average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	NA	NA	NA	NA	95.9%	77.5%	81.6%	84.2%	85.4%	83%	75%

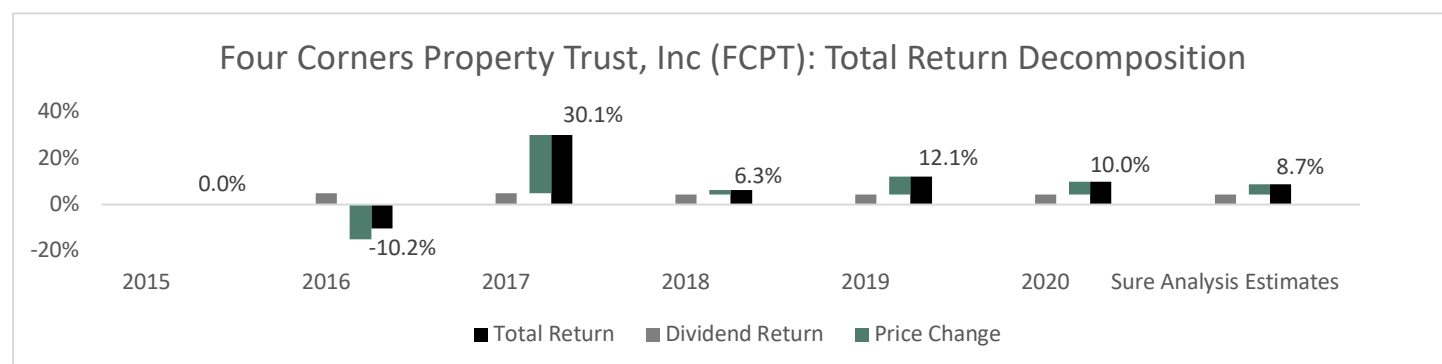
FCPT's competitive advantage is that it has a good management team. Also, the Trust is structured as a triple-net lease, which means property maintenance, taxes, and insurance are the tenant's responsibility. This results in strong operating margins in the 80-90% range for this sector, compared to most shopping center REITs' ~65% operating margins. FCPT does not have a long history, but the Trust held steadfast during the COVID-19 pandemic. From 2019 and to the end of 2020, revenue grew 6.9%, and FFO increased 4%. This speaks volumes as most retail REITs struggle mightily during the pandemic. Also, FCPT did not have to cut its dividend. The Trust increased its dividend by 4% in December 2020.

FCPT had a good balance sheet. The Trust has an interest coverage ratio of 3.6 and a debt to equity ratio of 1.0. The Trust currently has \$7.8 million cash on hand. The dividend payment is in line with other REITs paying out 83% of its FFO. We expect the payout to be in the 75% area for the foreseeable future as FFO grows.

Final Thoughts & Recommendation

FCPT is a well-run retail REIT with a good balance sheet. The Trust went through the COVID-19 pandemic like it was not even there. The Trust looks to be fairly valued, with an expected total return for the next five years to be 8.7%. Thus, we give FCPT a Buy rating at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue		17	17	18	33	124	133	144	160	171
Gross Profit		3	1	1	16	106	114	124	139	151
Gross Margin		17.3%	4.6%	4.3%	49.2%	85.6%	85.8%	86.5%	86.8%	88.5%
SG&A Exp.		2		-	2	11	12	13	14	15
D&A Exp.		1	1	1	4	21	22	24	26	29
Operating Profit		(0)	(0)	(0)	11	75	80	87	99	107
Operating Margin		-1.1%	-0.6%	-0.6%	32.4%	60.2%	60.4%	60.6%	61.6%	62.5%
Net Profit		(0)	0	0	6	157	71	82	73	77
Net Margin		-0.2%	0.2%	0.2%	17.0%	126%	53.6%	57.4%	45.3%	45.2%
Free Cash Flow		1	1	1	22	71	79	81	105	91
Income Tax		(0)	(0)	(0)	3	(80)	(0)	0	0	0

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			13	12	929	937	1,069	1,343	1,446	1,668
Cash & Equivalents			0	0	98	27	64	92	5	11
Accounts Receivable					0	0	0	1	0	1
Inventories			0	0	0	0	0	0	0	3
Goodwill & Int. Ass.					-	2	4	19	58	96
Total Liabilities			3	3	488	467	546	644	719	824
Accounts Payable			0	0	1	1	1	1	1	0
Long-Term Debt			-	-	392	439	516	616	670	754
Shareholder's Equity			10	9	442	465	514	691	721	841
D/E Ratio			-	-	0.89	0.94	1.00	0.89	0.93	0.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets			0.3%	1.2%	16.8%	7.1%	6.8%	5.2%	5.0%	
Return on Equity			0.3%	2.5%	34.6%	14.6%	13.7%	10.3%	9.9%	
ROIC			0.3%	1.4%	18.0%	7.3%	7.0%	5.4%	5.2%	
Shares Out.										
Revenue/Share	0.39	0.40	0.42	5.34	2.08	2.19	2.23	2.33	2.39	0.39
FCF/Share	0.02	0.02	0.02	3.46	1.19	1.30	1.26	1.53	1.28	0.02

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

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