



Global Net Lease (GNL)

Updated November 9th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$15.7	5 Year CAGR Estimate:	8.4%	Market Cap:	\$1.6B
Fair Value Price:	\$12.4	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	01/8/22 ¹
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Dividend Payment Date:	01/15/22 ²
Dividend Yield:	10.2%	5 Year Price Target	\$15	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	NA

Overview & Current Events

Global Net Lease is a Real Estate Investment Trust (REIT) investing in commercial properties in the U.S. and Europe with an emphasis on sale-leaseback transactions. The trust owns well in excess of 300 properties, of which office is the largest sector, followed by industrial and retail. Global Net Lease is a \$1.6 billion market capitalization business.

On November 4th, 2021 Global Net Lease reported Q3 results. Q3 revenue increased by 15.8% from \$82.7 million in the year-ago period to \$95.8 million. Net Operating Income was up from \$75.2 million to \$89.0 million year-over-year. Core FFO increased 27.4% to \$44.1 million from \$34.6 million year-over-year.

The portfolio was 99.9% leased with 8.2 years weighted average remaining lease term, reflecting a very healthy underlying business model. Moreover, the company collected nearly 100% of third quarter cash rents, including almost 100% from the top 20 tenants. GNL was also proud of its liquidity with cash and cash equivalents of \$176.4 million. In total, the company increased industrial/distribution assets by 52% year-over-year based on annualized straight-line rent and closed over \$380 million properties including Walmart and Pilot Point Steel properties.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	---	\$1.96	\$2.24	\$2.10	\$2.12	\$1.85	\$1.79	\$1.77	\$2.15
DPS	---	---	---	---	\$1.40	\$2.13	\$2.13	\$2.13	\$2.13	\$1.73	\$1.60	\$1.75
Shares³	---	---	---	---	56.2	66.2	67.3	83.8	89.4	90.5	100	100

Note that Global Net Lease was not publicly listed until 2015, which results in a very short observation history.

From first glance, Global Net Lease appears to be a strong REIT with 111 tenants, including well-established names like FedEx, U.S. Customs, ING Bank, and Family Dollar, diversified across seven countries. However, there are a variety of underlying concerns, especially as it relates to potential growth.

General concerns include potential conflicts of interest due to being externally managed by AR Global Investments (which invests for other entities), the office space industry requiring increased capex, and categorizing some of its tenants as investment grade using an “implied” credit model.

While GNL should be fairly well insulated from recessions thanks to their net lease structure and their diversified pool of investment grade tenants, they did cut their dividend last year as coverage was already very tight. However, the retained cash flow will enable them to invest accretively and return to FFO-per-share growth in the years to come as the economy recovers and behavioral habits return to normal.

¹ Estimate

² Estimate

³ In millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	---	---	---	12.2	10.5	9.8	8.4	9.3	9.5	9.6	8.9	7.0
Avg. Yld.	---	---	---	6.8%	9.7%	12.1%	10.9%	10.4%	10.1%	8.6%	10.2%	11.6%

Over the past four years shares have traded hands in the \$15 to \$27 range, implying an AFFO multiple in the 7 to 13 range. Given the current economic uncertainty across the globe and our concerns about sustainable long-term per-share growth, our fair value estimate will be on the low end of the spectrum at 7 times AFFO. As a result, we view shares as overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	71%	95%	101%	101%	99%	97%	90%	81%

The balance sheet is reasonably liquid and flexible given the strong interest coverage ratio, low weighted-average interest rate, well laddered debt maturities, and high percentage of fixed-rate debt. Additionally, after its recent dividend cut, the payout ratio improves the current dividend's safety and improves its chances of achieving accretive growth.

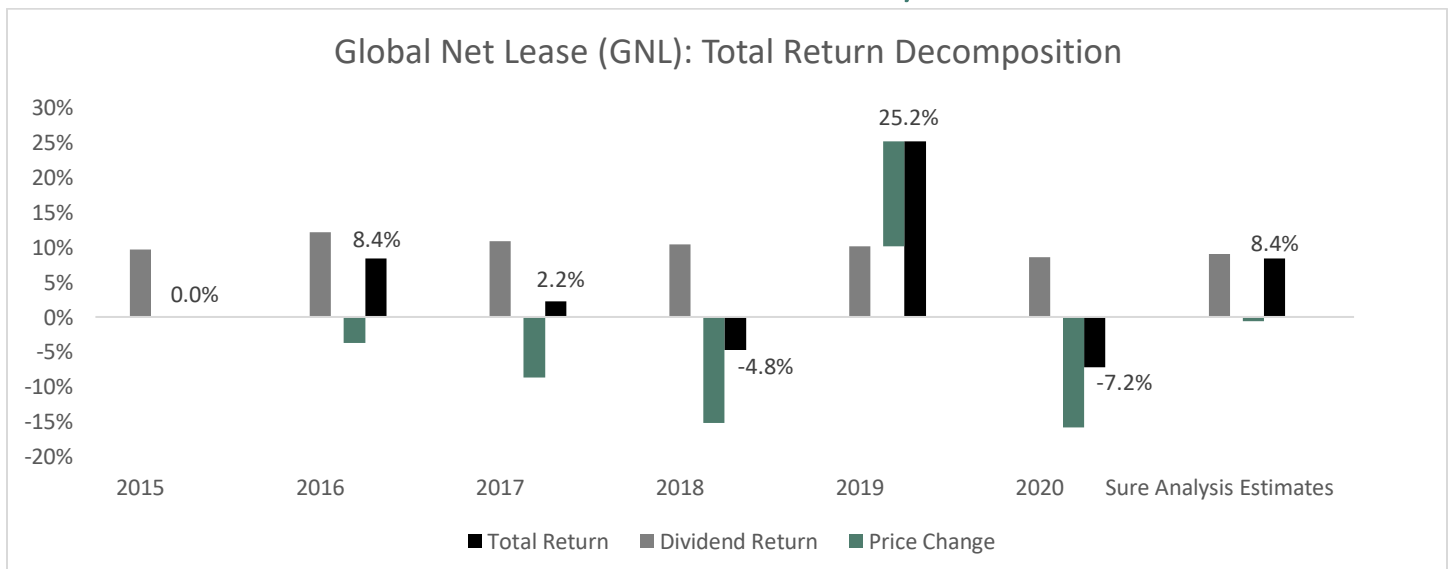
As a net lease REIT, GNL does not enjoy any competitive advantages other than decent scale and a fairly large business network with tenants in Europe and the U.S. Its business model is fairly recession resistant, though its high exposure to office properties does put it at some risk. Its high payout ratio heading into the coronavirus outbreak unsurprisingly led to a dividend cut in 2020.

Final Thoughts & Recommendation

GNL is supported by a diversified and defensively positioned portfolio of mostly investment grade tenants signed to long term triple net leases. However, the external management leaves investors at considerable risk of suffering from misaligned interests and potentially underwhelming future growth.

We rate shares a hold given the 8.4% annualized total return potential over the next half decade.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue			4	93	205	214	259	282	306	330
Gross Profit			4	85	187	195	230	253	278	298
Gross Margin			98.9%	91.5%	91.1%	91.1%	88.9%	89.8%	90.8%	90.2%
SG&A Exp.			0	5	43	31	29	41	53	59
D&A Exp.			2	42	92	97	118	125	131	143
Operating Profit			2	40	54	70	88	93	99	100
Operating Margin			42.7%	42.8%	26.2%	32.7%	34.0%	32.8%	32.3%	30.3%
Net Profit			(7)	(54)	(2)	47	24	11	46	11
Net Margin			-176.9%	-57.4%	-1.0%	22.0%	9.1%	3.9%	15.2%	3.3%
Free Cash Flow			(4)	(19)	92	114	128	143	129	170
Income Tax			-	(1)	6	4	3	2	4	5

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			215	2,429	2,541	2,891	3,039	3,309	3,702	3,967
Cash & Equivalents			12	65	70	70	102	100	270	124
Goodwill & Int. Ass.			48	488	521	601	652	698	674	735
Total Liabilities			92	1,012	1,320	1,535	1,624	1,881	1,992	2,413
Accounts Payable			3	15	19	23	23	32	23	28
Long-Term Debt			79	942	1,242	1,419	1,514	1,772	1,869	2,265
Shareholder's Equity			123	1,417	1,205	1,348	1,413	1,425	1,698	1,532
D/E Ratio			0.64	0.66	1.03	1.05	1.07	1.24	1.10	1.48

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				-4.1%	-0.1%	1.7%	0.8%	0.3%	1.3%	0.3%
Return on Equity				-7.0%	-0.2%	3.7%	1.7%	0.8%	3.0%	0.7%
ROIC				-4.2%	-0.1%	1.8%	0.8%	0.4%	1.4%	0.3%
Shares Out.					56	66	67	84	89	91
Revenue/Share			0.07	1.66	3.53	3.78	3.88	4.05	3.55	3.69
FCF/Share			(0.06)	(0.33)	1.58	2.01	1.91	2.05	1.49	1.91

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

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